

Searching and Researching the Baltic Sea Region

Proceedings from an international research seminar on Bornholm, April 1998.

By

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Preface

The Baltic Sea region has always been an area where different actors have been co-operating or fighting with each others. But normally it has been an open area. The 45 years of communist ruling in the Baltic States, Poland and DDR made movements difficult between the states in the region: two blocks emerged with little or no co-operation but also with little or no fights between each others. The Baltic Sea became a peaceful sea - Ein Meer des Friedens as it was labelled in DDR - despite the bellicose rhetoric from politicians of the two blocks.

It has now passed almost ten years since the wall fell and the Baltic Sea became an open area for co-operation or fighting again. During these years, efforts have been made to mark territories and positions within the area from all over the region. But there are no clear signs in the sky for forecasting on the future. No “Dannebrog” is appearing again and no other national flag either. A lot of organisations, boards, joint ventures have seen the daylight but still there are uncertainties about the roles.

In that context, The Research Centre of Bornholm decided to arrange a seminar on what research may contribute to clarify. This report is a result of what the researchers presented at the seminar but also a reflection of what was discussed. Some fundamental questions was raised and not fully answered and that indicates that this type of seminar will be continued. The Research Centre of Bornholm is ready to take its responsibility for the continuation not only because of the Centre’s position literally in the Baltic Sea but also because the interest of Baltic issues that is prevalent in the Centre.

Context

1. Introduction.....	9
1.1 Central questions for debate in the report.....	9
1.2 The content of the report.....	10
1.3 The Baltic dimension: in which ways real and meaningful?.....	21
2. The Coming of the Baltic Sea Region.....	26
3. Will the Baltic Sea region become an economically highly integrated area?.....	31
4. The sub-region of the Baltic states - its place and function in the Baltic Sea Region.....	37
4.1 Introduction.....	37
4.2 The Baltic states in the present European context.....	37
4.3 Regional cooperation.....	39
4.4 The sub-region of the Baltic States.....	40
4.5 In place of conclusions.....	43
5. The South-East Baltic – A new region of co-operating Polish provinces.....	45
5.1 Introduction.....	45
5.2 Baltic links of Polish maritime regions.....	46
5.3 The Baltic Euroregion as a new area of co-operation in the Baltic Sea region.....	49
5.4 Other examples of co-operation activities in the South-East Baltic.....	51
5.5 Conclusions.....	52
6. Tourism Images and Perspectives in the Vidzeme Region of Latvia.....	55
6.1 Introduction.....	55
6.2 Method.....	55
6.3 Results.....	57
6.3.1 Image of Vidzeme.....	57
6.3.2 Tourism resources and destinations in Vidzeme.....	58
6.3.3 The tourism determining factors in Vidzeme.....	60
6.3.4 Tourism development perspectives in the Vidzeme region.....	63
6.4 Discussions.....	64
6.5 Conclusions.....	65
7. Scenario-based thinking in spatial planning: Case Estonia.....	75
8. The foundations of regions: Lessons from.....	83
8. Europe and Norden.....	83
9. Modernization in Eastern Europe, and postmodern restructuring in the West: Looking for compatibility.....	87
9.1 Introduction.....	87
9.2 Looking for new paradigms and approaches.....	87
9.3 Identifying challenges and obstacles.....	89
9.4 Differences as factors of growth and cooperation.....	90
9.5 Changing Europe - updating stereotypes and problems.....	90
9.6 Hard times of transformation.....	91
9.7 Common regional future - some possible advantages.....	92

9.8 Instead of conclusions - some more research and real problems.....	92
10. Integration, flows, and networking in the Baltic Sea Region during fast economic transformation - the case of Sweden.....	99
10.1 Introduction - a short historical exposé.....	99
10.2 The transition countries in a Baltic Sea Region context.....	101
10.2.1 Time-lags in Economic Development.....	101
10.2.2 Employment and Unemployment.....	103
10.2.3 Trading Patterns.....	104
10.2.4 Factor Endowments and Factor Mobility.....	106
10.2.5 Implications for Capital Mobility.....	107
10.2.6 Implications for Labour Mobility.....	110
10.2.7 Fear of Mass Migration?.....	113
10.2.8 Integration Obstacles and Institutional Development.....	116
10.2.9 Economic Development and Networking.....	119
10.3 Cooperation and networking in the BSR - the Swedish case.....	121
10.3.1 Institutional Framework.....	121
10.3.2 "Missed Opportunities" or "Integration, Cooperation, and Development".....	130
10.4 Tables.....	132
11. Outsourcing of production of clothes from Jutland (Denmark) to Poland and Lithuania.....	139
12. Experiences from research on urban networking and urban systems in the Baltic Sea Region.....	145
12.1 Introduction.....	145
12.2 Some preliminary ideas on the prospects of urban networking in the BSR.....	147
13. What Becomes of Baltic Integration in the Post-Industrial Era?.....	151
13.1 Why Baltic integration?.....	151
13.2 Some indicators of Baltic Integration.....	154
13.2.1 Trade.....	155
13.2.2 Culture.....	156
13.3 The role of IT for regional integration.....	158
13.4 Conclusions.....	162
14. The Politics of EU in the Context of the Baltic Sea Region.....	167
15. Western Assistance to Countries in Transition (CIT): A Critical Review.....	171
15.1 Introduction.....	171
15.2 Problems of programme and project aid.....	171
15.3 Central questions in the debate on western assistance.....	173
15.4 Concluding remarks.....	175
16. Norway as Baltic Sea State - the Baltic Sea dimension in Norway's foreign-policy and research.....	177
17. About the authors.....	181
18. List of Figures and Tabela.....	183

1. Introduction

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1.1 Central questions for debate in the report

This report contains the proceedings from the research seminar “Searching and Researching the Baltic Sea Region”, arranged and hosted by the Research Centre of Bornholm in the spring of 1998 on the Danish Island of Bornholm in the Baltic Sea. 15 researchers representing all the countries around the Baltic Sea (except Russia¹) and Norway presented and discussed their works and views on economic and political integration and regionalisation in the Baltic Sea region (BSR). In the invitation to the seminar we articulated the central questions for debate as being:

- Does the vision of the Baltic Sea area as an economic and political integrated and coherent transnational region holds any contingency and realism?
- Does the BSR possess a specific regionality and power of coherence providing the region with a common development agenda - or is the region rather characterised by the co-existence of at least two very different societal discourses and developmental agendas: the modernist project of building nations and introducing market economy of the “East”, and the post-modernist restructuring project of the “West”?
- To what extent can we explain the development of the BSR as results of generally effectual dynamics and by means of general applicable theories of, for instance, “glocalisation” - and to what extent do we have to apply specific “Baltic” characteristics and dynamics different from other regions?

As it maybe appears from these phrased questions and from the headline of the seminar, our superior motivating interest was to facilitate a critical review of the substance and potentials of the very concept of a Baltic Sea Region. The need for such a review is a natural consequence of the development in the years since the “fall of the wall”, through which the spontaneous euphoria over the re-union of the Baltic Sea peoples and countries after almost half a century’s division in two isolated blocks has been replaced by more realistic attitudes to the huge and long termed problems of integrating the former communist countries in the Western sphere of democracy and market economy. Today, it seems relevant to ask a bit provocatively: in which respects - if any - does a Baltic Sea region exist? And in which respects - if any - does a “Baltic” dimension possess a special and supplementary explanatory power in relation to the

1 The missing representation from Russia was definitely not due to some kind of aversion from the Research Centre of Bornholm to this particularly country. The only but nonetheless regrettable reason was the Centre’s limited contacts to Russian researchers.

development of the Baltic Sea countries, regarding the spectre of other territorially related distinctions and contexts available for analysis, for instance the local, sub-regional, national and global contexts as well as the contexts of Eastern European transition, EU integration and NATO enlargement? It was our hope that the discussions at the seminar could contribute to answer such questions.

However, as it appears from the report, not all presentations and discussions at the seminar addressed these questions directly - as a matter of fact, some presentations and discussions didn't even concern the BSR as a whole but only parts of it, e.g. individual countries or sub-regions, like in the chapters of Section II. On the other hand, what we have prioritised in the organisation of the seminar and what is also clearly reflected in this report is representation of researchers from many different Baltic Sea countries, applying different disciplines and having different thematic, empirical and theoretical approaches to regionalisation and regional development in the BSR. This priority was considered appropriate in order to get a variety of perspectives from different standpoints on the substance, potentials and problems related to the process of Baltic regionalisation.

Due to the varied character of the individual contributions to this report a rather detailed introduction, that also tries to relate and tie them to each other and discusses some of their central points, is perhaps needed. This will be done in the next section. In the last section of this introduction chapter some concluding remarks on some of the issues and questions outlined above will be made.

1.2 The content of the report

The contributions in this report is very different in character, due to the workshop-like form of our seminar, to which the invited participants were not demanded to submit a traditional scientific paper but only were required a verbal presentation. Thus, some contributions are presentations (of very different length), which were especially prepared for the seminar (the chapters 4, 5, 11, 12 and 15) or written afterwards for publication in this report (chapter 3). Two contributions are papers, which at least in all essentials are elaborated independently of our seminar, and of which one hasn't been published previously (chapter 6) and one is an edited version of an already published paper (chapter 10). The rest of the contributions are to be considered as edited transcriptions of the authors speech at the seminar (the chapters 2, 7, 8, 9, 13, 14 and 16).

The chapters are divided in five sections - like the presentations at the seminar. In section I, "Possibilities and prospects for an integrated Baltic Sea Region", there are two contributions, both having an important role of introducing and outlining some of the central conceptualisations and perceptions marking the debate on the BSR.

Bjarne Lindström discusses the broader perspectives of the BSR and its future opportunities in terms of economic and political integration. With respect to economic transition and integration he outlines some clear indications of a development in the right direction, and his view on the opportunities for further economic integration and co-operation in future is rather optimistic - although he also observes evidence for a very uneven and uncertain development.

In line with his and Lars Hedegaard's introduction chapter to the NEBI Yearbook 1998², Lindström addresses a special analytical attention to the emergence and significance of different types of "interactionist regimes" in the BSR, defined in relation to two axes: State actors vs. Non-State actors, and Integration vs. Fragmentation. These two axes sketch out some very important lines in the picture of former, present and future dynamics in the BSR. According to Lindström, most of the more important political initiatives concerning the BSR, like the establishment of CBSS and the VASAB 2010, can be characterised as traditional intergovernmental co-operation (bi- and multi-lateralism). However, he also observes an increasing importance of cross-border region-building co-operation based on non-state actors like supra-national institutions (e.g. EU), sub-national (i.e. local or regional) authorities, or non-territorial organisations (cities, universities, businesses, industrial associations etc.)

In chapter three, *Karin Peschel's* approach to and conclusion on the subject of Baltic regionalisation is rather sceptical - at least in relation to regionalisation and economic integration in the Baltic Sea area as a whole. Peschel's definition of a "region" - or an "economic space" - focuses on its functional assets and on measurable or identifiable parameters like trade, capital flows, communication and technology transfer, but also on institutionalised immaterialistic parameters like similar patterns of social life and political strategies.

According to Peschel's data and analyses, which, however, essentially are based only on trade statistics, there is currently very little evidence for the formation of an integrated economic space in the BSR as a whole. Her data rather indicates that the Baltic Sea countries belong to different historically rooted trade blocks, encompassing countries from outside the BSR. While Estonia and Finland increasingly are integrated into the Scandinavian trade block (which also could be a possible future development path for Latvia and Lithuania), there is no evidence that Poland and Germany will become integrated parts of a Baltic Sea region. Poland is intensely oriented towards an emerging East and Central European trade block, comprising the Visegrad countries and Austria, and Germany is heavily tied to its western neighbours and increasingly also oriented towards the new East and Central European markets.

In section II, "Sub-regions and sub-regional development in the BSR", there is four contribu-

2 Hedegaard, L. and Bjarne Lindström, 1998, The North European and Baltic opportunity, in: Hedegaard, L. and Bjarne Lindström (eds.), *The NEBI Yearbook 1998. North European and Baltic Sea Integration*. Springer.

tions - each of them by researchers from former communist Baltic Sea countries and all focusing on problems and opportunities for development in geographically distinct parts (sub-regions) of the BSR.

Jonas Cininskas discusses in chapter four the tremendous current challenges of the three Baltic states, facing radical societal change and implementation of the EU legal and regulative system. *Cicinskas* stresses that the overwhelmingly prevailing goal for the current political life in all three countries indisputable is the process of accession to the EU, and that EU's decision of differentiating the Baltic states' schedule for accession could impede the further deepening of their co-operation and make an end to their unity. It is also an important conclusion, that the huge problems of changing the "rules of the game" in the economy and building up the necessary new economic, political and social institutions are not only related to some sort of "systemic inertia", lack of training programmes for administrators and managers, and the like. The problems is certainly also due to a profound and unquestionable lack of adequate knowledge on how to meet the almost contradictory demand of, for instance, "stabilisation" and "rapid economic growth". A special barrier in this respect, according to *Cicinskas*, is the very bad and inadequate conditions in the Baltic states for social sciences research on these extremely important issues.

In chapter five, *Malgorzata Pacuk* (together with her colleague *Tadeusz Palmowski* who did not participate in the seminar) gives real-life examples from the BSR of the increasing number of the specific type of transborder interaction that in *Bjarne Lindström's* scheme of interactionist regimes is called integrating interaction between non-state actors - or just region-building. *Pacuk* shortly describes some concrete development projects and co-operation agreements between, on the one hand, local and regional authorities and public and private organisations in the provinces along the Polish Baltic Sea coast, and on the other hand similar types of actors in regions, communities and cities in other Baltic Sea countries. Although the effects of all the Baltic Sea development projects and co-operation agreements launched and entered by state and non-state actors since the "fall of the wall" perhaps is not yet to be seen (at least they are not systematically evaluated), the picture outlined by *Pacuk* of intensive transborder region-building through a manifold of contacts and projects on local and regional level indicates that trade statistics do not tell the whole story about co-operation, integration and cohesion in the BSR.

Chapter six, "Tourism images and perspectives in the Vidzeme Region", is written by *Gunars Bajars* (who also presented the paper at the seminar) and three of his colleagues at the Vidzeme University College in Latvia. It describes the results from a research project that they recently have carried out. On the basis of a survey of professionals in the tourism sector the research project investigated the characteristic images of and the encouraging and impeding factors for tourism in the Vidzeme region in Latvia, in order to provide knowledge on how to develop the tourism industry in the region. This investigation indicates that the tourism poten-

tials of the region mainly are connected to the variety of an unspoilt nature and the cultural monuments and landscapes, but also that a further exploitation of these assets depends on a number of crucial factors, like transport infrastructures, accommodations, information and education, supply of capital etc. As these factors in general are insufficiently present at the moment, the project indicates the many-sidedness and difficulties of building up new fields of market based economic activities in a former communist country like Latvia. And having in mind that Vidzeme University College was established as late as in 1996 one might add to these numerous problems the simultaneous problem, stressed by Cicinskis in relation to the case of Lithuania, of establishing from almost scratch those new research institutions that are supposed to provide the data and analyses needed to develop the economy and society.

Erik Terk finishes section II with his presentation “Scenario-based thinking in spatial planning: Case Estonia”. It deals with the research and planning project “Formulation of Estonia’s territorial-economic development concept (nation-wide planning) until 2010”, carried out by the Estonian Institute for Future Studies (in which Terk is director) in co-operation with a group of mostly governmental officials. The “Estonia 2010” project is an ambitious attempt to elaborate some possible general development scenarios for Estonia, in order to provide central as well as local governments with data, analyses and forecastings needed to formulate strategies for regional development and specialisation, to determine the main plans and policies for settlement, use of land, physical infrastructures, educational systems, industrial development etc.

Terk’s presentation stresses the risk that the fast and radical transition towards market economy in Estonia leads to a very uneven regional development within the country - unless the problem deliberately and seriously is dealt with. This spatial/regional dimension of the transition process is definitely very relevant for all post-communist countries, not least in relation to the question of EU-membership. In order to qualify and prepare themselves for use of EU’s Structural Funds and regional development policies, the new member-states have to reform their regional strategies and policies and to build up regional institutions that politically and administratively are able to handle EU support³. However, the obvious centrality of this part of the transition process is unfortunately combined with equally clear obstacles, of which one is the general dilemma of “efficiency versus equality” (de Vet, 1998), that in the real social and political context of the transition countries is highly difficult to deal with. On the other hand, the very elaboration of “Estonia 2010” to qualify the future decision-making on Estonia’s regional development according to values like sustainable development, long-term economic efficiency, and openness and democracy, is an evidence on Estonia’s eagerness to adapt itself according to Western and EU principles.

3 de Vet, Jan Maarten, 1998, *EU enlargement and preaccession: reflections concerning Central and Eastern Europe*. Paper presented at the 5th Nordic-Baltic Conference in Regional Science: “Global-local interplay in the Baltic Sea Region”, October 1-4, 1998, Pärnu, Estonia.

Lene Hansen opens section three, “The Baltic Sea Region in Discursive Perspective”, with her contribution on “The Foundations of Regions: Lessons from Europe and Norden”. Due to the centrality of this particular contribution in a discussion on the above mentioned seminar questions, it will be introduced and discussed in more details - although I hereby perhaps risk to refer and over-interpret all the points in Hansen’s short, but nonetheless highly interesting seminar presentation. Its central theme is the question of what constitutes regions in general and the BSR in specific. Hansen’s point of departure is an analytical distinction between two different kinds of logics constituting the cohesion and dynamics of regions: on the one hand a logic founded on the existence and importance of a common cultural identity and political “development project”, and on the other hand a logic originated in the functional and structural economic assets and dynamics of the region.

By directly referring to this distinction, Hansen hits in the heart of one of the most central discourses underlying the academic debate on regionalisation in the BSR - a discourse which also was very apparent in the discussions during the seminar. Namely, whether the process of regionalisation in the BSR is understood and conceptualised as a constructivistic and intentional project of identity based region-building, or rather as an unplanned, non-intentional manifestation of increased functional integration and regional specialisation due to more general (global) processes of economic internationalisation and division of labour. And by referring to the experiences on regionalisation in Europe and Norden, Hansen has two points in relation to this debate.

The one is that the two logics, “identity based region-building” and “functional integration”, in practice are intertwined but differently in different types of regions. While the EU integration process, according to Hansen, until now primarily have followed the road of functional integration but today seems to need a common identity to progress and sustain its democratic legitimacy, the process of regionalisation in the BSR seems to follow the opposite direction. Region-building efforts to profile and build up the cultural and political identity of the region have dominated the scene and been a precondition to start the process of functional economic integration.

Indeed, this is probably a very proper analysis of the political integration processes in EU and the BSR, which are in the focus of Hansen. However, if we go beyond a focus on the political dimension of integration, the dialectically intertwined question of the dynamics of functional economic integration remains unanswered, since increased trade and economic co-operation is not an automatic consequence of planning, political decisions and identity based region-building in a modern market economic system. In fact: “region-building projects are only successful if they are in line with the regionalisation of economic activities driven by economic forces, inherent in the market mechanisms”, as Peschel argue in chapter three. Indeed, the EU Commission’s project of “Europe of Regions” could be interpreted as a “marketing slogan” developed and used politically in order to promote the idea of new European institutions and

regulative regimes. But “Europe of Regions” is also, and perhaps first of all, an expression of the factual “state of things”, that (sub-national and transborder) regions and regional framework conditions definitely have become highly important for economic growth and development - a process that apparently contradictory goes hand in hand with the market driven process of economic globalisation. These simultaneous processes of economic globalisation and regionalisation (in recent literature titled and described as “glocalisation”), reduces in many ways the room for pro-active EU economic politics, almost to the level of simple re-active adjustments. So, like in the case of Europe, functional economic integration in the BSR will not in the first hand be a follow of pro-active political region-building efforts but will rather depend on the existence of comparative economic advantages and economic actors’ chances to make profits through co-operation. Since these advantages and chances, on the other hand, in principle can be promoted by targeted economic political regulation and initiatives towards the BSR, and since, on the other hand, there is rather limited political opportunities (and interests) to form a special “Baltic economic space” independently of the broader European perspective of Eastern European transition and integration, the BSR provides an obvious case for a study on the dialectical relation between politics and economics in modern capitalism.

Hansen’s other point to the debate on how to define and comprehend the BSR, is that the core of the cultural and political identity of this particularly region - the core on which the region is constituted and the political region-building efforts have been founded - is the differences between the Western and Eastern spheres. Hansen argue, that because and not in spite of the social, cultural, technological and political differences, the BSR has provided for instance Denmark with a highly suitable new geopolitical platform to expose and redefine itself after the end of the Cold War as an important actor on the international political scene. This way of considering the differences - or, one might add, perhaps rather the interest in both spheres of exposing and exploiting the differences - as a promoting strength and not an impeding barrier certainly seems to hold potentials in relation to such an identification of the BSR as a political platform for symbolic and somewhat cynical national self-staging. As a contribution to a comprehension and conceptualisation of the political substance and significance of the BSR, Hansen’s analysis is indeed relevant and useful.

Yet, if we again go beyond Hansen’s analytical focus and turn our attention to economic development and functional integration, social, cultural, technological and political differences between economic actors and spaces are absolutely disadvantageous unless they can be expressed, and not least exploited profitable in terms like “wage, cost and prize differences”, “competitive skills and technologies”, and “demands, purchasing power and market potentials”. And in these respects the “manifold differences” in the BSR unfortunately often are translatable with “one-sided inequalities”, which typically will mean one-way flows, welfare and technology gabs, and persistent centre-periphery relations like between developed and underdeveloped countries - as Mats Johansson shows in chapter 10. On the other hand, as Illeris indicates in chapter 11, the low labour costs in the Eastern Baltic Sea countries also

attract foreign investments and re-location of industries from Western countries, that in the long run can lead to a sustainable economic development - dependent on the applied specific firm strategies. But some of the very same social and cultural differences within the BSR, which might have played an important role in the initial phase of establishing the region as a new geopolitical platform, for instance concerning language, religion, management cultures and entrepreneurial milieus, may very well be barriers to the next, and in practical terms perhaps much more important phase of realising a socially desirable way of integrating the Eastern and Western Baltic Sea countries.

The second and last chapter of section III is the seminar presentation of *Lech W. Zacher*, "Modernisation in Eastern Europe and post-modern restructuring in the West: Looking for compatibility". Zacher's main theme is the present and future challenges for development in the Baltic Sea countries, and, like Hansen, he puts a special emphasis on the importance of the huge and manifold differences in the BSR. According to Zacher, one of the most important differences is that the Eastern Baltic Sea countries, economically, technologically, politically, socially and culturally, are facing the challenge of advanced modernisation while the Western countries are in a phase of post-modern restructuring. These different historical situations and phases in "civilisational development" form certain incompatibilities which should not be neglected by researchers, politicians and practitioners when initiatives on integration and institution building in the region is discussed and implemented. If sensitivity to social and cultural incompatibilities and differences means political development and support strategies based on dialogue and the specific needs of the target countries (and not, as Lars Johannsen stresses in chapter 15, somehow hypocritical strategies which rather reflects the interests and the internal political discourse of the donor countries), this would definitely imply a very positive perspective on Western assistance to the Eastern Baltic Sea countries.

Another central point among the numerous in Zacher's presentation is his accentuation of the significant importance for all modern societies of the information technological development and the emergence of an "Information Society". Due to these processes old economic, political, social and cultural structures and orientations will be changed and replaced by radically new ones. And in relation to the debate on contemporary development in the BSR the interesting thing is, that both the Western and the Eastern part of the region will have to meet this particularly challenge, deliberately and offensively, from different points of departures but both as "societies in transition" without any precise conception of the final outcomes. By incident, the "New Baltic Sea Region" was born almost simultaneously with the take-off of what is called the "IT revolution". What the impact of this might be in future is difficult to say. However, a hypothesis could be, that due to the lack of other well-established platforms and channels for communication and co-operation in the BSR, the new electronic media, like the Internet, will prove to be highly effective and frequently applied means to establish relationships and perform transactions, economical as well as social ones.

Mats Johansson, starts Section IV, “The role of networking and institutions for integration”, with the most voluminous paper in this report: “Integration, flows, and networking in the Baltic Sea Region during fast economic transformation - the case of Sweden”. Johansson’s paper deals, thoroughly and very enlightening, with the prerequisites for and economic outcomes of networking between Swedish city-regions and city-regions in Eastern Baltic Sea countries. He describes how the collapse of the Soviet bloc and the following turbulent transition processes of the post-communist Baltic Sea countries have resulted in, on the one hand, an opening of intensified trade, economic integration, labour and capital movements etc. across the borders of the old iron curtain in the BSR, and, on the other hand, a region with profound differences between the Western post-industrial welfare societies and the Eastern post-communist transition societies concerning their basic development conditions. According to Johansson’s data, the different economic, institutional, legal and social stages of development in the investigated city regions in Sweden and in post-communist Baltic Sea countries result, as briefly mentioned above, in one-way flows and unilateral co-operation relations between the actors involved in networking. Prerequisites for a successful integration in the BSR are, according to Johansson, closing of the welfare gap between the countries, establishing of more diversified economies, and transfer of knowledge and technology to the countries in transition. Since this is not possible without reducing the Western countries’ comparative advantages for at least some economic activities, it would be an important and perhaps necessary Western sacrifice for integration.

In the following chapter 11, *Sven Illeris*, tells an illustrative case story on exactly this subject. He describes how the opening of the Eastern Baltic Sea countries for market economic activities has resulted in very radical reductions and changes in the Danish textile and clothing industries. In order to survive the new competition from these low-cost countries, the (typically small) firms in Denmark have in recent years outsourced most parts of their manufacturing activities (i.e. especially the sewing operations) to Poland. The much lower wages in Poland have of course played a significant role for this, but also the existence of long traditions and competitive know-how for textile and cloth production in Poland seems to have been important. It is expected that within some few years only the knowledge intensive functions of designing (which in this particular industrial branch is extremely important), managing and marketing are left back in Denmark. This outsourcing strategy has indeed reduced the employment in Denmark but has nevertheless been very profitable and successful. As employment and training of Polish labour force also to perform more sophisticated functions is an integrated part of the Danish firms’ strategies, they foresee that Poles in some years will have taken over and will be running a major part of the whole business on their own - with the consequence of a re-location of the Danish firms to Lithuania or other low-cost countries.

This case story indicates that there at least within distinct industrial sectors, like the textile and clothing industries, is good opportunities for a sustainable and mutual beneficial integration in the BSR. According to Illeris, it is not very likely that firms within the textile and clothing

industries in Denmark (or other Western countries) will outsource their manufacturing activities to very distant countries. e.g. in Asia, due to problems with transport and communication. So, in purely logistical terms the BSR seems to have some comparative advantage and to constitute a suitable environment for co-operation and integration for certain types of economic activity.

Perttu Vartiainen, continues in chapter 12, “Experiences from research on urban networking and urban systems in the Baltic Sea Region”, the discussion on urban networking that also was the subject of Johansson in chapter 10. In fact, a great part of the data and analyses presented in this report by Johansson and Vartiainen originate from the same joint Nordic research project, on which Vartiainen was the managing head. Vartiainen’s theoretical point of departure is that cities - or urban regions - are becoming increasingly important as motors of economic development, and that the simultaneous process of economic globalisation fundamentally has changes the spatial logic of the economy into a flow oriented logic based on complex exchanges of information, capital and power between different localities. According to Vartiainen, urban networking, which in these years in general is intensely developed and strengthened, might be interpreted as one way to manage this new complex situation.

Vartiainen’s socio-economic analysis on networking between Baltic city regions, carried out by public, private and intermediary actors, indicates that most of the networking activities between actors in Eastern and Western parts of the BSR are still based on relations between in-equal partners and therefore by nature characterised by one-way communication and hierarchical structures. Truly interactive and horizontal co-operation as well as innovation-based local economic development projects are almost missing. On the other hand there is also indications of some progress in cross-border cooperation and strategic networking. However, another finding is that the spatial reach of the urban networking is restricted by and reflects different sub-regions’ different positions and orientations in the BSR. So, Vartiainen’s overall conclusion is, that with respect to economic cooperation and networking the BSR must be comprehended in a limited local or regional perspective - as a network of districts or as a region of networks without definite territorial boundaries.

“What becomes of Baltic integration in the post-industrial era?” is the title of chapter 13 by *Lars Fuglsang*. Since Fuglsang himself has made a very informative introductory abstract to his highly interesting paper, little is needed to be said about it here. Just to position it in the row of contributions to this report, it might, however, be at its place here to say that it convincingly synthesises many of the discussions and conclusions in the report and at the seminar as well concerning political and economic integration in the BSR. Fuglsang’s overall conclusion is that some integration will happen, given the almost total separation between the Eastern and Western parts for almost 50 years. However, he clearly places himself on the sceptical side of academic assessments on the prospects for a highly integrated Baltic Sea Region. In order to form such a region, highly undesirable forms of protectionism and other strong political actions

are required. At the moment the most convincing argument for integration in the BSR is to assure security, and even this argument is, according to Fuglsang, ambiguous since Baltic security cannot be dealt with in isolation from the wider European context.

Another argument for integration in the BSR, that Fuglsang gives a special attention and perhaps could form a rationale for future integration politics, is that the emerging post-industrial service economy and the increasing application of IT not only reduce the importance of places and territorially based generic frameworks for economic relations but also accentuate a need for “situated learning”. A good example of the BSR as a possible geographical and institutional environment for learning and innovation is actually Illeris’ above mentioned case study (although it is not told from the perspective of new post-industrial structures, service activities and IT applications), describing the still existing advantage of adjacency (in terms of transportation, communication, management principles, and learning and innovation) in a highly internationalised but still territorially founded production complex.

The last and fifth section has the headline “Western politics and assistance in the Baltic Sea Region”. It starts with *Pertti Joenniemi’s* chapter 14, “The politics of EU in the context of the Baltic Sea Region”. As the title indicates, this chapter deals with the question of how EU politically relates to Baltic regionalisation. According to Joenniemi, EU’s Baltic politics can be divided into two spheres: a foreign and security political sphere and a regional political one.

As to the common foreign and security dimension, EU has played an active role in the establishment of the so-called Stability Pact, that resulted in a set of Regional Tables, one of them being a Baltic Table. Through this initiative the future member-states were requested to negotiate problems concerning minority rights, environmental issues, regional policies and so forth, and the agreements entered through these negotiating are today landed on the table of OSCE for further evaluation and implementation.

As to the regional dimension of EU politics, in which the Structural Funds are utmost central, the processes of regionalisation in the BSR (as well as in the Barents region) have been a huge challenge to EU. In general, EU has not been especially well equipped with large, transnational regional formations like the BSR, as EU’s regional policies to a large extent have been designed to create a uniform political economic space within the union through a functionalistic top-down approach and not, following Joenniemi, to boost truly regional developments. The Nordic countries’ active role of influencing EU’s regional policies in the direction of Nordic regional policy characteristics, i.e. more pluralistically bottom-up approaches, has upright enhanced EU’s challenge of handling the process of Baltic regionalisation, characterised by bottom-up, networking and non-state actors. It is, however, Joenniemi’s conception that a certain “nordification” of EU’s regional policies have occurred. EU has to some extent adapted its approaches and diversified its instruments. Thus, in relation to Baltic regionalisation the EU has been rather flexible and pluralist. Still, Joenniemi strongly doubt that this flexibility and

pluralism will prevail, since the coming expansion of the number of member states presumably will demand more streamlined and uniform operating principles.

At the seminar there was a discussion whether Joenniemi's observation of a "nordification" of the regional policies of EU might be due to an active political influence of the Nordic countries, achieved through political disputes and in spite of disagreements, or if the changes rather reflect a more general trend in many EU countries and in the EU as such towards new political values and principles, that are more in line with the ones that used to be specifically Nordic. To determine the correct one of these two interpretations (if any of them), will depends on further investigations, but it seems obvious that the question is highly relevant in relation to the future regional policies of EU.

Hereafter follows "Western assistance to countries in transition: a critical review" by Lars Johannsen. The subject for Johannsen's analysis is the numerous number of Western aid programmes and projects towards the East European countries in transition launched during the 1990s. And his analysis provides a highly critical review of the effectiveness of these programmes and projects. He lists and describes a number of the most significant and frequent problems connected to Western assistance at both the donor and the recipient side, for instance concerning insufficient co-ordination, human resources, administrative capacities and institutional learning. According to Johannsen, an important critics to the distribution of funds and the selection of supported projects is that it often seems to reflect political bargaining and pet ideas of politicians and administrators in the donor countries rather than the needs of the countries in transition.

On the basis of this critical evaluation Johannsen asks and shortly discusses some severely relevant questions for the design of and priorities in future Western assistance to the countries in transition. The questions concern whether higher priorities should be given to countries in the second wave of negotiations for EU membership, to less favoured regions within the transition countries, to education, labour market retraining, and social institutions and systems, and, finally, to the problem of the many stateless citizens in the Eastern part of the BSR that jeopardise the future development in the whole region.

The last chapter in section V and in the report as well is *Håken R. Nilson's* "Norway as a Baltic Sea state - the Baltic Sea dimension in Norway's foreign-policy and research". Nilson discusses how Norway can be comprehended as a Baltic Sea state, and to what extent this comprehension can work as a political context for Norwegian research on Baltic issues. The analysis is based on his recent survey of Norwegian research competencies on the Baltic states, carried out on a request of the Norwegian Foreign Ministry.

According to Nilson, Norway's foreign political connection to and interests in the Baltic dimension is marginal - or perhaps rather indirect. Due to its geographical location, remote from

the BSR, Norway keeps a rather withdrawn position in the Baltic political context. However, presence and some visibility in the BSR is important in order to attract political attention to the other large northern regionalisation project, the one in the Barents region, which contrary to the BSR is of superior interest to Norway. The aim is to tie up the other Nordic countries and the EU into some sort of responsibility to this project too.

Nilson's overall conclusion about Norwegian research on the BSR is that it reflects the vague foreign political priorities concerning the region. It lacks targeted direction and decisiveness, and has to a large extent developed at random without any comprehensive framework and strategy - not thereby characterising the qualities of the individual researchers and research projects. This picture of the Norwegian Baltic research matches very well with the picture of the Baltic research in the other Nordic countries and in Germany, drawn by the Research Centre of Bornholm on the basis of a survey of these countries⁴. Ending this introduction to the seminar proceedings in the present report by pointing to this particularly survey is very convenient as it shall be referred to a little more detailed in the next and last section of this chapter.

1.3 The Baltic dimension: in which ways real and meaningful?

In this final section there shall be made some few concluding remarks to the central questions for debate at the research seminar "Searching and Researching the Baltic Sea Region". The first remark concerns the question of the actual substance and potentials of a "Baltic Sea Region", the explanatory power of a special "Baltic" dimension - or one might perhaps just put it this way: the meaning of the word "Baltic"?

Besides the academic analyses and discussions reported in this publication an input to an answer to this question might be to see how the research on Baltic issues is defined and organised at universities and research institutions. This has been one of the purposes of the above mentioned survey by the Research Centre of Bornholm, through which the social sciences research activities in Denmark, Norway, Sweden, Finland and Germany concerning Baltic issues have been mapped. The survey clearly indicates, that with few exceptions among the about 250 mapped university departments and research institutions that somehow are involved in Baltic research, the Baltic dimension is not a distinctly defined, prioritised and organised field of research. The general picture of how the research on Baltic Sea countries is carried out is, that *if* the individual research institutions have defined some sort of a comprehensive framework for their Baltic research activities (for instance a formalised strategic research plan or a certain common theoretical approach), then it is not connected to a definite *Baltic* dimension. Generally speaking, research on Baltic issues is usually case studies, that are tied *either* to broader and more general contexts like "Eastern European transition", "EU integration" or "economic

4 The results from this survey are reported in Manniche, Jesper (ed.), 1998, *Baltic Social Science Research in Scandinavian countries and Germany. State of the Art*, Research Centre of Bornholm. The survey concerning the Norwegian universities and research institutions was carried out by Håken R. Nilson.

globalisation”, or to a more narrow local, regional or national specific context. This seems particularly to be the case in relation to economically oriented research, including socio-economic regional studies. In a strictly economic and functionalistic definition of “regions” (like Peschel’s in chapter 3) the BSR simply isn’t a region at present, and additional, to the extent that an economic integration actually is occurring, this is hardly due to a general process of Baltic regionalisation. So, in this very general respect the Baltic dimension apparently is not considered to possess the needed qualities of a relevant and proper field of research with its own set of problems, characteristics and theories.

On the other hand, some moderation of this conclusion is certainly needed, which also the proceedings in this report clearly testify. When it comes to research on foreign and security policy a special and prioritised focus on the Baltic dimension is very often seen, both among the universities and - perhaps more naturally - among the research institutions outside the universities devoted to strategic studies on national foreign and security policy, like DUPI in Denmark, NUPI in Norway, and UI in Sweden. Although Baltic security, as Fuglsang argue in chapter 13, hardly can be thought of independently of a broader Eastern European context, it is quiet obvious that the Baltic dimension has some genuinely special geopolitical characteristics and - at least from the perspective of the Nordic countries - some highly important foreign and security political potentials, which not to the same extent exist in relation to, for instance, a broader Eastern European context. An evidence on this importance of the Baltic dimension is the establishment of new formalised political, military and human rights institutions specifically for the BSR.

A similar focus on an overall Baltic dimension is also often the case within the research on environmental protection and spatial-physical planning. And accordingly, also within these fields new institutions and formalised co-operation agreements have been established, e.g. HELCOM and the Committee for Spatial Development in the Baltic Sea Region. So, in relation to these issues the Baltic dimension apparently has a special analytical advantage, a supplementary explanatory power and/or a practical societal relevance. Thus, our overall conclusion on the substance and potentials of the “Baltic Sea Region” seem to be that it presently only in certain distinct respects constitute a relevant and fruitful overall analytical context for understanding and conceptualising the developments of the Baltic Sea countries. However, this certainly doesn’t reduce the indisputable relevance of the BSR for case studies on almost all the most important challenges of modern societies, since all of them are very clearly expressed in the region:

- The *environmental* challenge of cleaning up the mistakes of the past and recreating a sustainable natural basis for the societies.
- The *political and military* challenges of finding a new balance of power after the Cold War period.
- The *economic* challenge of transition to market economy and integration into an increas-

ingly global economy.

- The *social and democratic* challenges of securing the living conditions for major disfavoured groups of people and reducing the huge gap in the standards of living.
- The *technological and organisational* challenge of implementing information technology in businesses and public sectors and of meeting the demands of the coming information society.
- And the *cultural* challenge of preserving national, regional and local identities and characteristics simultaneously with the opening of our societies for international influence and migration.

The second and final concluding remark concerns the importance of different approaches and cross-disciplinary discussions, that seems to be evident not least in relation to the BSR. The fact that the participating researchers at the seminar varied greatly with respect to educational and professional background and disciplinary approach and therefore contributed to the discussions from different angles, was above all the most productive characteristics of the seminar. The central theoretical concepts and empirical findings of different disciplines applied on the same subject are too seldom confronted and discussed in a common forum. The advantages of such cross-disciplinary discussions was obvious at the seminar, not least in relation to the experience that, roughly speaking, economically and politically oriented Baltic researchers seem to have very different understandings of and approaches to phenomena that in reality are interconnected and ought to be analysed more comprehensively.

The two fundamentally different understandings of the concept “regionalisation”, described above in the introduction to Hansen’s presentation, is a good example of this. Very generally speaking, the *constructivistic* approach to regionalisation in the BSR, focusing on present or not yet realised possibilities and potentials of political region-building, is the approach of political scientists, while the *functionalistic* approach to regionalisation focusing on its measurable and structural economic characteristics and backgrounds is the approach of economists (and to some extent geographers). This tendency to a division of the academic debate on the BSR is actually very inappropriate and unproductive, since these only outwardly conflicting approaches of “constructivism” and “functionalism” in reality, as Hansen states, are intertwined and can explain different aspects of the process of Baltic regionalisation. The proceedings from our seminar hopefully prove, that an appropriate and adequate comprehension and conceptualisation of the BSR only can be achieved by a combination of these two approaches (and possibly other too) into some sort of dialectical analytical framework.

Section I: Possibilities and prospects for an integrated Baltic Sea Region

2. The Coming of the Baltic Sea Region

By Bjarne Lindström, Finland

Looking at a map of the Nordic and Baltic Sea area from the 1980's, one usually only finds empty spaces on the eastern shore of the Baltic Sea. The territory of the former Soviet Union, Poland and former East Germany was of no interest for the map maker. It was only the western part of the Baltic that counted.

This divided "half-region" was the Baltic Sea area until the fall of the Berlin wall. Now we are confronting something else, namely a continuous territory with the Baltic Sea in the core, a region stretching from the Barents Sea in the north to Warsaw in the south, and from the Norwegian Sea in the west to St. Petersburg and Minsk in the east.

This radical break with history involves a number of things, but most of all it involves two important changes: (1) a change in the economic geography of the region, and (2) a major change in the political geography of the region. These changes are what I will discuss very briefly here.

Starting with the *new economic geography*, it is interesting to notice that the Baltic Rim constitutes an overlapping area between a number of important economic regions in Northern Europe. Down in the South is the economic core area of the EU, the European industrial centre and one of the world's biggest consumer market. In the far North - the Barents Sea area - we find Europe's biggest unexploited resources of minerals and energy, in the East we have the new transformation economies with great potential for future development. In the West we have the scarcely populated but highly developed Scandinavian economies. And right in the middle of all this we find the new Baltic Sea Region.

Thus, the Baltic Rim area is closely connected with a number of different production systems, of different markets, consumers, labour markets and labour qualities, and so forth. Going back to old Adam Smith, we all know that this means an important potential for specialisation, division of labour and trade. In short: economic development and prosperity.

The conclusion, therefore, is that there is a great economic opportunity for this new North European region in the making. The question is, of course, has anything happened yet?

Yes, something has happened. Following a decline in GDP in some of the area's established market economies in the beginning of the 1990's, and an even stronger downturn in all transformation economies, recovery has been substantial. Parts of the Baltic Sea region have experienced a growth which is high by international comparison - not least in Poland, Estonia and Finland.

The same picture applies to transnational investment flows. Investment activities have been particularly strong in Estonia and Latvia, whose economies have been strengthened by inflows from developed economies in the Baltic Sea Region, primarily Finland and Germany. Many Russian regions, however, are still not receiving foreign investment of any consequence. Trade in the Baltic Sea area has also expanded greatly in recent years. Currently, internal trade accounts for more than 20% of the total trade in the region. An important wheel of integration in the area, travel and tourism, is booming. The inflow of tourists to Estonia has grown with 100% over the last couple of years.

But what about the region's general standard of living? Sad to say, in every single former communist country the general living condition deteriorated in the turbulent wakes of the break down of the Soviet Union in the end of the 1980's. From 1995, however, there are signs of change for the better. So even here there is room for some optimism.

Thus, it is reasonable to conclude that the Baltic Sea Region is gradually moving towards increasing economic integration and prosperity. It is, however, a very uneven development. The Baltic Rim contains, by any standard in today's world, a number of very poor regions - especially some of the Russian regions. Social instability in some parts of the region is a serious problem, with growing criminality, drugs etc.

The Baltic region's *political potential* is equally interesting. One important thing to notice, is that the area contains most of the political construction of space known in today's world. Classical unitary states like Sweden and Norway, federal states like Germany, confederations like the EU and the Common Wealth of Independent States, and a special kind of "regionalised" unitary states, like Denmark, with the autonomous territories of the Faeroe Islands and Greenland and Finland with autonomous and demilitarised Åland. It also contains geo-political peculiarities like the Russian Kaliningrad enclave and almost every kind of military co-operation, with NATO of course, as the most important actor. We have different kinds of multi-lateral organisations like EFTA, the Nordic Council and so forth. In fact, the region is characterised by a very complicated structure of relations between territory and politics.

Recent development in the Baltic Rim is characterised by a growing mix of political initiatives, various kinds of cross-border co-operation, new regional institutions, cross-national co-operations and so on. The political development takes place within two important areas: the "low" and the "high" policy area. A closer look at the low-policy area, shows two types of integrationist endeavour. The first is a territorial integrationist development, that is, various kinds of transnational region-building, like for example the case of Öresund or the co-operation between Bornholm and Skania. The second "low-policy activity" is functional networking - among groups of professionals, enterprises, economic associations, universities, schools etc.

Within the area of high-policy, there has been a development from a policy of nation-state based security blocks to various types of transnational integrationist regimes like the EU-enlargement in the area, NATO involvement, CBSS, the creation of the joint Baltic Battalion etc. A growing number of new “high-policy organisations” are currently working with security measures in the region. Today traditional geopolitical interests can only be secured through increased focusing on the sub- or trans-national regional level and on the development of new functional networks. Thus, high-policy in the new Baltic Sea Region increasingly has to combine with low-policy.

What kind of *Baltic Development Regimes*, if any, are we then moving towards? Some form of spatial integrationist regime is necessary if political, social and economic interaction is to reach its optimal potential. It does not, however, necessarily have to assume EU-like dimensions. *Ad hoc* regimes or regimes aiming at a more limited approach may well serve the short-term needs.

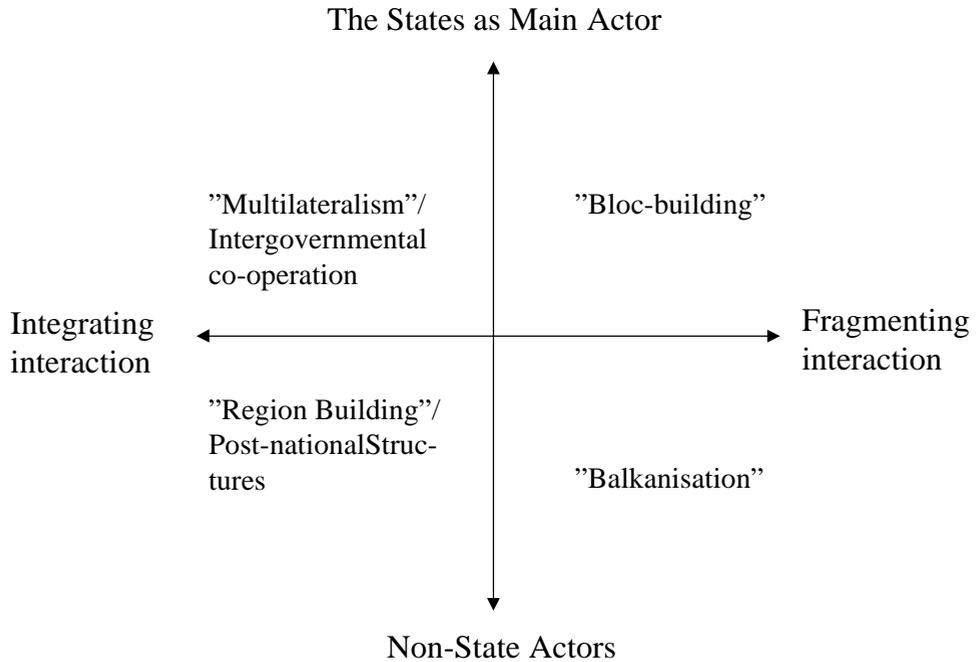
But an optimal development towards Baltic Sea-wide structures is by no means the only possibility. Another possibility is spatial fragmentation along lines defined by various security-policy blocs or intra-area economic competition, which may be intensified by other negative factors such as social instability, threats against the civil society or ethnic conflict. In the worst case, the outcome may be regional “Balkanisation” or “perverse” regionalisation.

To a large extent, the shape and direction of future Baltic integration will depend on what actors take the lead - traditional, top-down territorial states or EU-based post-national, region-building regimes. If the territorial states maintain their grip on the integration process, it is likely to proceed in accordance with traditional principles of intergovernmental co-operation. Some of the important integrationist schemes, such as the Barents co-operation, the Council of Baltic Sea States and VASAB 2010, must primarily be characterised as nation-state initiatives. However, this is not the same as saying that they will continue to be dominated by states or that some of their tasks may not be taken up by other types of actors.

A possible alternative to traditional intergovernmental co-operation is the emergence of political-territorial co-operative regimes focusing on cross-border region-building in a situation where traditional state actors are gradually replaced or complemented by a number of new ones. These actors may be supranational (the EU), they may be sub-national (various types of regional actors), or they may be “non-national” or rather non-territorial (networks of cities, universities or interest organisations, such as chambers of commerce or industrial associations).

None of these different Baltic development possibilities can be excluded from a picture of Northern Europe's future. In fact, even today there are elements of them all in the area, and there are many signs that this will remain the case in the foreseeable future.

Figure 1. Conceivable interactionist regimes



3. Will the Baltic Sea region become an economically highly integrated area?

By Karin Peschel, Germany

In the letter inviting to this seminar a question is raised, which has been in the centre of my interest since long, namely „Does the vision of the Baltic Sea area as an economic and political integrated and coherent transnational region holds any contingency and realism?“

This allows me to repeat some ideas and results of empirical research, which are already published, but stayed undiscussed in political science literature as far as I know.

The extent literature offers different approaches to the analysis of regions. Among those, the so-called region building approach became favourite in Northern Europe. When reading this literature one can get the impression that a strong belief exists that there are options for forming regions of this or that kind or to perpetuate their existence, depending on the intention of political actors. I think this is not true, at least not with respect to the ongoing institutionalised regional integration in Europe. In contrast, I suggest the following hypothesis:

In modern democratic market economies region building projects are only successful if they are in line with the regionalisation of economic activities driven by economic forces, inherent in the market mechanism.

Here, I will not discuss the consequences of this hypothesis in detail. However, I would like to suggest that economic motives as driving force for region building should be more carefully considered in political science literature in future. For example, the fate of the rival region building projects of EFTA and the EEC was correctly prognosticated by economists as Andreas Predöhl (1971 p.237), based on his theory of the spatial dimension of the world economy.

Certainly, the impact of the market mechanism has varied in history. It was strongest in times of internalisation of the world economy and weak in war times. Presumably, it has never been as effective as now.

I do believe that economic problems dominate the majority of political decisions nowadays. Is it not true that the EU strives after a political union by economic integration? Without any question, globalisation is much more than a catchword. The liberalisation of capital flows, of services and of other factor flows resulted from political decisions made by national and international governments, which presumably have not been fully aware of its consequences. Especially the negative impact of liberalisation on the design of effective political instruments was

obviously not foreseen.

Similar considerations hold true for the enlargement of the EU to the east. Without any question, the integration of the former socialist countries into the western market economies is a political goal. According to my hypothesis, this will only be arrived when the actions chosen do not contradict to the working of market forces. Otherwise, in best case inefficiencies would arise, in worst case Europe could experience political and economic disaster. Inefficiencies, for example, do arise in cases, in which the market mechanism would generate economic relationships, which are actually prevented by nationally set barriers, i.e. for example when the trade relationships of the Baltic States with Russia would be hindered by tariffs and quotas. The consequence of these considerations is that it has to be proved in any case whether market forces are in favour of economic integration of special groups of countries and how far reaching this integration ought to be.

Thus, the introductory question can be answered by analysing the working of market forces in the countries alongside the rim of the Baltic Sea. This can be done by theoretical discussion and by empirical studies. Here, I have to confine myself to some elements of such analysis. Furthermore, I will present some results for discussion. All those who are deeper interested in this subject may read the papers quoted.

The starting point of my analysis is the following definition:

An economic highly integrated area is a region, of which the economic agents are more strongly related to each other than to those of other regions. Such relationships are cause and consequence of trade and capital flows, of transfer of knowledge and technology as well as of various forms of communication. They tend to mutually reinforce each other.

This definition is satisfied by the EU countries as can empirically be proved (Peschel, 1990).

- According to this definition, integration is furthered by those elements which favour strong mutual relationships in the form of trade and commerce, transfer of knowledge and technology, mobility of people etc. These elements can be grouped in four categories - as we know of econometric studies (Geraci and Prewo, 1982; Herrmann, Schmidtke, Bröcker, Peschel, 1982; Peschel, 1985, Peschel, 1990):
- Low costs of transport and communication (cost, speed, and reliability advantages).
- Linguistic and cultural similarities, sympathy, local colour (milieu), some sort of feeling of belonging together (regional identity).
- Similar pattern of social and political life (related political, legal and institutional struc-

tures, similar knowledge basis, similar economic and social problems).

- Congruent political strategies with respect to social welfare, to macroeconomic stability etc.

The Institute of Regional Science of the University of Kiel has analysed these elements in detail (Peschel, 1992, Peschel, 1998). The outcome is that a Baltic Sea region as an area of high economic integration comprising all regions bordering the Baltic Sea is not easily to be visualized in the near future. However, a Scandinavian-Baltic economic space could come into being, provided Latvia and Lithuania can overcome the difficulties of their transformation processes and Russia's and Belorussia's developments stay behind. Estonia and Finland seem already to be on the way to becoming part of the existing Scandinavian economic space.

This statement implies that Poland and Germany will not belong to a Baltic Sea region. The main reasons for this are that distance and adjacency in connection with the size of market potentials favour closer relationship with a presumably emerging middle-east European core, comprising the Visegrad countries and Austria. Furthermore, Germany is strongly tied to its western neighbours. And this holds true for the northern parts of Germany and Poland bordering the Baltic Sea as well. Although their economic relationships with the Scandinavian Baltic economic space will be more intense than that of other parts of their countries, it is not to be assumed that they will become stronger with foreign countries than with the domestic economy.

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**Session II: Sub-regions and sub-regional development
in the Baltic Sea Region**

4. The sub-region of the Baltic states - its place and function in the Baltic Sea Region

By Jonas Cicinskas, Lithuania

4.1 Introduction

I would like to touch upon the issue of a Baltic states' sub-region. The existence of the Baltic sea region (legitimised by the Council of the Baltic Sea States) is obvious and the same is true concerning the existence of the Baltic states as of a regional unit comprising three countries which are distinctive from the rest as having emerged from the ex-USSR (regaining their independence).

What is under discussion is to what extent are the Baltic states in permanent links with the rest of the Baltic sea states and what peculiarities make them a specific part of the region - a sub-region. A thorough discussion of the issue would help profoundly in drawing conclusions on further development and cooperation within the area.

I shall begin with European - or, more exactly, with the European Union dimension. The regional cooperation then will be (just) mentioned and the issue of the Baltic states sub-region will be relatively more thoroughly explored. A few remarks will be put in place of conclusions.

4.2 The Baltic states in the present European context.

The main issue of the current political life in all three Baltic states is the accession to the EU. It dominates all other topics held on the desks of top officials in the three countries.

On the first stage Lithuania, Latvia and Estonia were making all necessary steps together - including the signing of Free Trade Agreements and the Association (Europe) Agreements with the EU. The opinions released by the European Commission on the countries' applications for membership made an end to this unity. In December 1997 the European Council in Luxembourg made decision to invite Estonia. Among others, to begin accession negotiations and to put Lithuania and Latvia, among others, to wait for next wave.

The conclusions of the European Commission were to some extent disappointing to Lithuanian (and, as it seems, to Latvian) administration - they were received as a disqualification of the country in spite of all its efforts, hopes and, what was most important, in spite of the complete lack of major shortcomings and backtracking with the internal and external ~~depen~~ments.

The goal of the EU membership is overwhelmingly prevailing in the Baltic states. And since the European Commission brought in, with its qualification criteria, a competition component, this now impedes the deepening of Baltic states cooperation. I shall dwell upon it in the third

section of the presentation.

On the other hand it is understood well that inclusion of Estonia to the first wave of the countries to start negotiations is a big achievement for the Baltic states since it demonstrates the resoluteness of the EU to ignore the inherited geopolitical divisions of Europe and makes very strong signal to Lithuania and Latvia about the readiness of the EU to continue the process.

Lithuania is fully aware of the assistance provided by the Nordic EU members - Denmark, Sweden and Finland - for its membership case.

The reasons of this assistance are both understood and highly appreciated in Lithuania. I think the issue of the Baltic states membership in the EU is the main motive and basis for the mutual cooperation in the coming years - the more so because the other members of the CBSS also look favourably to the issue.

On the other hand, this issue - when we turn to more specified questions and topics - presents harder tasks. At least, from the researcher's point of view three areas of investigation could be identified:

1. the diversified activities of implementation and enforcement of the European Community's legal body (*acquis communautaire*) which although being a rather technical task (law harmonisation, institution building, training of civil servants, expanding of information policy) and being implemented mainly by the administrative bodies, raises many problems of academic nature - just to mention the study and training programmes, training of trainers and, what is most important, the need to have a capacity to explore the implications of the job done and to plan the sequence of activities;
2. the very consequences of changing the rules of game in the economy first and mainly (but not only) due to entering the European Community market with its strict rules of competition, state aid, specific sectoral policies, technical and environmental standards, freedom of movements of goods, services and capital (but not of labour force as it seems now) are of great interest. The issue of Single Market (the rules of which we are expected to comply with even before becoming the member of the EU) is the dominant and prevailing one - both by its complexity and its decisive influence on the Lithuania's economic performance. Pointing out these topics I mean not the implications and consequences themselves but the ability to deal with the topics, to investigate them, to draw conclusions and to make forecasts.

Here, in economic field, I find topics for research particularly exciting. For instance, all this huge amount of advises for our economic policy makers. For a country like Lithuania, that is - for a young, developing, restructuring economy, coping with the sharp need for economic growth, for changing the employment structure, for rising the income level, for re-

orienting trade, for attracting foreign investment - to implement everything the neo-classical economic theory suggests does not match neither our capacities nor needs. How can we both encourage stabilisation, the open trade, and the rapid economic growth? Should we implement the same policies as developed countries concerning the employment, the social protection, the incentives for growth, the monetary policy, the trade policy, the environmental standards, the balance of payments etc.? We can not afford to do all these things at the same time, but do we choose our policies in the best way?

3. the lack of general knowledge of the EU - understanding the principles by which it works, knowing its history and being capable to judge independently its actions and to discuss its problems - is the third main issue. How many books have been already published in Lithuanian on the EU issues? The exact answer is - one book (translation of *The European Community* by Allan M. Williams, 2nd ed., published in Britain in 1994 and in Lithuania in 1996). And how many doctoral thesis have been written and doctor's degree awarded? The answer is - so far, no one. On the other hand, some correcting notes should be added: in 1995 the Centre for European Integration Studies was established by joint effort of Vilnius University and Ministry of Foreign Affairs; the main fields of its activities were translations of important EU documents (White Paper etc.) and the organisation of yearly conferences on the Lithuania's integration to the EU, very fruitful ones, with proceedings published. Unfortunately, it is fully dependent on external funds and stops working when there are no projects funded by a external source. A couple of doctoral thesis will appear in coming years dealing with the EU issues on sound scientific basis.

Therefore, the first of my conclusions is: the issue of the Baltic states' membership of the EU is among the top research priorities in this time period. Although this is an "internal problem" of Lithuania (and, perhaps, of two other states as well) I think it is worth to mention if the problem of regional cooperation of researchers is under discussion.

4.3 Regional cooperation

The Baltic sea region has a long history of trade, cultural and political links and relations between the states - just to mention the Hanseatic League. On the other hand this is a region which was divided by the "iron curtain" in the period of the "cold war". With this situation being profoundly changed big perspectives have arisen and are well understood by all actors in the region.

Looking from the side of the Eastern coast of the Baltic sea there are no doubts - today the external relations of the three Baltic states are most intensive with other countries of the Baltic sea region: Finland, Sweden, Denmark, Germany and Norway. Although of different political reasons and with different content quite expanded relations also exist with Russian Federation and its Baltic provinces (Kaliningrad and St. Peterburg areas especially) and with Poland. Trade relations with all of them make up the bulk of all trade. Additionally political cooperation is relatively intensive - first, based on the membership of the Council of the Baltic Sea

States, secondly - due to the EU membership of several of our Western neighbours and, thirdly, due to more special links and meetings in the framework of Nordic-Baltic cooperation and meetings in the form of 5+3. Strong historically based cultural links are also to be mentioned.

All of this might be an argument to state that the regional cooperation does exist and has a future.

The main factors which create the geopolitical community - a region - are links in economic, cultural and political fields. All three fields are vital for the existence of common values and views, each of them is a factor for the two others. Which one has to be given more attention and strengthened at the current moment - is a very interesting topic for scientific discussion and penetration. What did we inherit of today's regional cooperation and what have we already added to this? I think that what is relatively most neglected and not less important is to investigate the most recent developments in promoting permanent cooperation in the region by mutual efforts of all Baltic sea states. We have to investigate very thoroughly what has been done in the area from the beginning of the 90s. The studies of the links and relations in the region from that date are worth special scientific attention - with the perspective of creating new models of international and intergovernmental regional cooperation under new and very peculiar circumstances where the established and highly developed EU members, the post-communist countries-future EU members and the leader of the CIS meet.

4.4 The sub-region of the Baltic States

Just a couple of weeks ago I had the opportunity to be a member of a small group of experts evaluating the situation of the research at the Social science faculties at Lithuanian universities. I was surprised by the fact that among several hundreds of research projects and themes there were only few - three or four - dealing with the European Union or regional issues. There was only one exception - the Institute of International Relations and Political Science at Vilnius University where I happen to work now and which I did not evaluate (a newly established institution which staff is almost fully composed of young political science graduates with part of their education in Western universities). The absolute majority of studies are devoted to the topics of national, country-level issues or deal with themes of unlimited global content. The idea of regions - Baltic States, Baltic Sea States, Nordic region, Central and Eastern Europe region, and even European Union - actually does not exist as a research topic.

From geopolitical point of view there are no doubts that being a part of the Baltic sea region the three Baltic states - Lithuania, Latvia and Estonia - make up a distinctive part of it which could be called a sub-region. Its political unity and cooperation were most visibly expressed in 1989-1991 when the three countries were the front runners in liberation from the former USSR. The best known symbol of this was the Baltic road in August 1989 when about one

million people joined hands to make the live chain from Vilnius via Riga to Tallinn.

At the beginning the understanding of the need and benefits of close cooperation between the three Baltic states were quite strong. Several permanent structures of political cooperation were established - Baltic Assembly, formed in December 1990 (comprising 20 members of parliament from each country and meeting twice per year), Baltic Council of Ministers, formed in 1994 and aimed to facilitate cooperation between governments of the three countries; both institutions have their common yearly meetings named Baltic Council.

In economic field the first formal act was the trilateral Agreement on Economic Cooperation, signed 12 April 1990. Later came Free Trade Agreement (13 September 1993) and Agreement on Free Trade in Agricultural Products (16 July 1996).

But the real cooperation did not go very far. The declarations prevail. In real life, especially with the intensification of preparatory work for accession to the EU, some kind of competition entered the stage. There are still strong inclination to cooperate and many things are being done without much publicity - on the level of local administrations, sectoral administrative structures, businessmen. What is underdeveloped is the intergovernmental cooperation in real actions making closer the economic systems, the functioning of customs and other specialised structures, stronger cooperation in external relations with the third countries. The need for harmonisation of economic policy, of functioning of the three economies is obvious - if the incentives for foreign investment and opportunities for local business are to be strengthened and expanded.

The Baltic states sub-region is a very new and very young part of the Baltic sea region. Having regained their independence at the beginning of this decade the three countries are still not being defined very precisely as a coherent sub-region. As a result and as they are undergoing the process of fast systemic changes, changes are brought into their mutual relations as well. Just to mention several most recent developments:

1. The invitation of Estonia to begin accession negotiations with the EU and the exclusion of Lithuania and Latvia from the process, so far, seems to play an important role in rising the obstacles for the strengthening of trilateral cooperation . If Lithuania and Latvia will not start negotiations at the beginning of the next year, this, perhaps, will mean the artificial but efficient pushing the two countries into the inferior position regarding the economic development not without further consequences for the whole sub-region. What kind of consequences? Shall the Baltic states sub-region continue to integrate or will it experience a kind of disintegration?
2. Lithuania's special relationship with Poland brings in a specific component. The two countries have signed the agreement on good neighbourhood relations. The agreement laid the basis for the friendly and expanding relations between Lithuania and Poland. The insti-

tutional structures for cooperation between the Presidents, the Parliaments and the Governments were created. The military cooperation is developing - the conspicuous event being the formation of common peacekeeping battalion - LITPOLBAT - which commences its duties from the beginning of the next year. Lithuania is strongly devoted to become a member of CEFTA (which is conditioned by the membership in WTO). All this makes Lithuania strongly involved into the cooperation among the Central European countries and, by this, makes it feeling like a joining link between the Northern and the Central Europe.

3. Some internal problems arising from the government instability and citizenship issues in Latvia indirectly underline the still existing probability of falling into "grey area" situation for the Baltic States. Not only the inadequate reaction from the side of many political figures of the Russian Federation signals this; it still happens that some top officials of Western countries find as well the viewing of the Baltic states as a kind of "near abroad" (of Russia) acceptable as well.

These just three topics mentioned show that the issue of current and future developments in the three Baltic states provide quite tough - and not less interesting - research themes with real political meaning.

Among the concrete problems directly linked with the developments in the sub-region are the following:

- a) economic dimension - the expansion of trade relations, especially under the operation of free trade area (including free trade of agricultural products), capital movement (the inflow of Estonian capital is already visible both in Lithuania and Latvia), infrastructure development (still not coordinated - with few exceptions: Via Baltica, some customs cooperation), common market place for the subsidiaries and distribution networks of transnational corporations, industrial cooperation (nothing of that kind, as yet). The issue of customs union, raised by politicians and progressing in extremely slow pace - is it worth to be implemented having in mind the pending EU membership?
- b) political dimension - as post-communist countries all the three states provide a show-case of systemic economic and political changes, industrial restructuring, modernisation of the economy and society. Politically these countries come out from a police state and economically they come from a huge industrial machine operating with no regard to the scarcity of production factors and relevant prices: what does their experience tell us? It is said sometimes that the post-communist countries are bringing a vigorous behaviour and - due both to their achievements and their huge economic and social problems - force other countries to rethink the way the modern societies have gone and the situation they have come to. Can some useful conclusions be drawn from what the post-communist countries bring in to the modern, highly developed and yet not free from economic and social problems West Euro-

pean countries? In this regard, all three Baltic states are very similar and their common experience is the more so resourceful for that kind of investigations;

- c) cultural dimension - very interesting field of research. The only area where there are no feelings of inferiority (in spite of very poor financial conditions). This is the area which let the three nations to distinct themselves in the former empire. Accordingly, when the broad public now discusses the consequences of the EU membership the main topic is - will our culture and cultural identity survive when we shall become members of the EU? And this is very sound thinking as the cultural identity is the main counterweight for the threat of standardisation of the united Europe. Will nations in transition afford to save their own culture?
- d) geopolitical dimension - I would define this as a separate field of investigations as well. Geopolitical situation is far from being identical with the geographical one. Therefore - which way shall the three nations go? How will the different dates - if they are - of joining the EU will influence their place and role in the Baltic sea region? And the issues of both Kaliningrad region and the Leningrad Oblast, as parts of the Baltic sea region, are of big and attractive scientific interest.

4.5 In place of conclusions

The Baltic states are still in inferior position concerning many fields of Baltic sea states cooperation and the area of academic and research links is one among them. Social sciences actually are created anew and the real and equal partnership is still a future target.

Alongside with this the Baltic states provide an interesting historical case for researchers - a case of systemic transformation when neither undeveloped nor underdeveloped but misdeveloped countries undergo a shift to modern societies. And the further they go doing this the more they diverge between themselves. This was recently stated in *European Economy* (December 1997) published by Directorate General II of the European Commission: "Economic developments in the associated Central European countries are gradually becoming less and less homogeneous".

Problems for research are supplemented by research problems. The situation with the provision of literature, periodicals, data sources in the universities of the Baltic states is deplorable. Anyone who wants to do a scholarly investigation has, literally, to hunt for data and sources. Even publications of native Statistical department are not available in libraries of Social science faculties since faculties have no funds to subscribe them. The foreign publications come in exclusively in the form of grants (especially beneficial are TEMPUS projects). Therefore, academic cooperation with Western and Nordic partners fail to be a real cooperation remaining, to a big extent, links of assistance.

5. The South-East Baltic – A new region of co-operating Polish provinces

By Malgorzata Pacuk and Tadeusz Palmowski, Poland

Abstract: The paper presents some examples of Polish coastal provinces' co-operation initiatives and activities in the Baltic Sea region. The authors pay attention to those aspects of co-operation which have been taken by local municipalities and communities. In addition to initiatives taken within the wider context, a substantial number of actions engage a limited numbers of participants, differ in kind, status and size. All the initiatives constitute a significant input to Baltic integration.

5.1 Introduction

Political changes which took place in Europe at the beginning of the nineties created favourable conditions for development of the economic and intellectual potential of all states in the Baltic region. Baltic co-operation may become a key link in integration processes in Europe.

Previous, current and planned co-operation activities have involved all the states in the Baltic Sea region. The dynamic developments taking place in Baltic Europe can be perceived as the most characteristic and reflecting the newly established formal and informal structures for integration and co-operation. However, it must be emphasised that institutionalised co-operation within the region is only a superstructure facilitating delimitation of an area comprising state bodies. Next in line there are regions, local communities and their projects which are the main entities of Baltic co-operation and the principal beneficiaries.

Baltic countries in Europe have their long, common history and are presently undergoing a revival of their identity. History of those countries features both examples of co-operation as well as conflicts. The civilisation and culture element consolidating Baltic European society is maritime traditions which establish specific values, as for centuries the sea brought people closer together, especially tradesmen and sailors, consolidating their awareness of common fate and interest, teaching mutual respect of language, cultural and religious differences. A widespread and appropriately high level of knowledge about each other is a condition for the development of good co-operation. In the previous geopolitical environment in the region this was not possible. Certain difficulties in communication continue to pose a barrier. On the other hand there are certain similarities between some languages. Furthermore, the English language is used as an international language in these countries.

The central location of Poland in the southern strip of the Baltic and peoples' common approval of integration with the European Union predestines us, in a sense, to initiate and actively participate in various forms of international co-operation in the Baltic region to enhance

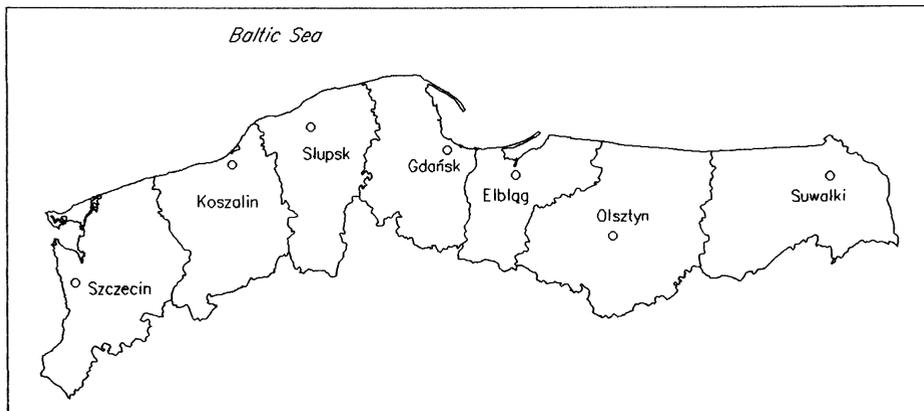
integration.

5.2 Baltic links of Polish maritime regions

Most of the pan-baltic contacts established are of a rather regional character (more than a national one) with local authorities of coastal regions playing a significant role.

1. Among the maritime provinces in Poland Szczecin (see Fig.1) maintains the most animated international co-operation. Local authorities in the region maintain relations with 48 communities round the Baltic basin, among them 33 German towns and communities, 6 Swedish towns and communities, 3 Danish towns and communities, 2 in Latvia and 1 in Lithuania. The principal fields of co-operation include tourism, culture, education, public transport, health care, economic development and protection of the environment. Foreign co-operation of the state administration of the Szczecin province includes 39 agreements and understandings on co-operation, 30 of which concern Baltic states. Due to the location of the province, contacts focus on Germany but also include Denmark, South-West Skania, Lithuania and the Kaliningrad District.

Figure 2. The northern provinces in



One of the results of co-operation with Germany, in particular in scope of spatial development in the border region, is the International Park of Lower Oder Valley. Communities express their opinions on local plans for land use and projects in the border area. This concerns subterranean fresh water resources which criss-cross the border line.

The Szczecin province features 21 border crossings (all types). Ferry connections join Swinoujście and Copenhagen, Ystad, Malmö and seasonally Rönne, air connections from Goleniów, which lies close to Szczecin, to Copenhagen.

In 1995 the Euroregion "Pomerania" was established comprising: on the Polish side 45 communities from the area of 3 provinces, mainly however from Szczecin province, on the German side 6 counties and three independent towns. As late as the beginning of 1998, the Community Union of Skania (association of local authorities), one of the most economically and culturally animated regions in Sweden, joined "Pomerania" giving it its Polish-German-Swedish tri-dimensional character. The main area of life and work of its inhabitants cover maritime economy, tourism, and agriculture. All these areas shall remain the domains of borderline co-operation.

1. Foreign contacts of Koszalin province are decidedly more moderate in comparison to other coastal provinces in Poland. Local authorities in this province signed an agreement on co-operation with Skania and the Governor of Koszalin with the Kaliningrad District and Mecklenburg-Vorpommern. These agreements concern economic and cultural co-operation.
2. Local authorities of Slupsk province and the province Governor co-operate with six partners in Sweden and five in Denmark. The fields of co-operation include agriculture, protection of the natural environment, education and culture as well as manufacturing industries. The most animated relations of the province are maintained since 1990 with the province of Bornholm in Denmark. In 1993, an agreement on co-operation was concluded between the town of Slupsk and the Bornholm County which covers 2 agreed projects on environmental protection and housing. The agreement and understanding of 1994 between Slupsk and Bornholm provinces (signed in Rönne) covers the following fields:
 - protection of the natural environment and power resources,
 - agriculture and fishing,
 - building,
 - inter-regional communication network,
 - infrastructure,
 - development of tourism,
 - education and cultural exchange,
 - assistance in economic initiatives.

This formal co-operation framework gave grounds for regular working meetings of regional and local administration staff and non-governmental institutions and company employees. For example over 350 public administrators from the province of Slupsk participated in several specialist training courses. One of the results is the pilot bio-refinery plant built in Czarna Dabrowka near Slupsk, realised through co-operation between Bioraf Foundation on Bornholm and Slupsk province.

The presentation of economic and cultural achievements took place during the "Days of

Bornholm” and “Days of Slupsk” organised in Slupsk in 1992 and on Bornholm in 1994. A tangible result of these meetings is a new water treatment plant built thanks to Danish resources in a fish processing plant in Ustka. Within the framework of cross-border co-operation with Denmark, the construction of a yacht marina in Leba is under way, as well as an information programme on tourism and economy INFOTUR-BIN, waste management in the Slupsk region and upgrading of a boiler plant in Ustka. The animator of co-operation between Bornholm and the Slupsk province was the Mayor of Bornholm County, Mr. Knud Andersen. In 1996, he was awarded a medal from Slupsk province authorities for his contribution towards integration.

The Slupsk province also maintains intense relations with the Swedish province Kronoberg. These focus mainly on environmental protection, privatisation, tourism and spatial planning. The SALABITS program, initiated in 1990, gave excellent grounds for using the experience of local authority with traditions and achievements in Sweden here in Polish communities. Initiation of co-operation between several communities is the effect of the programme.

Since 1987, the town of Slupsk co-operates with the town of Vantaa in Finland, particularly in the fields of health care, welfare services, building, schools, culture and sport.

3. Another province, Gdansk, signed the first co-operation agreement in 1990 with the County of Storström in Denmark. The region actively participated in establishing the Agency for Gdansk Pomeranian Development. Presently, Baltic co-operation includes agreements with 13 communities and towns in Denmark, 12 with Sweden, 4 with the Kaliningrad District and 1 with Lithuania.

In the Baltic part of Germany Gdansk maintains tight relations with Schleswig-Holstein, the independent Hanseatic town Bremen and Mecklenburg-Vorpommern. Kiel provided assistance in establishing Gdansk Economic Chamber. Resulting from the activity of the Bremen Commercial Bureau many companies initiated international co-operation. Contacts are maintained relating to environmental protection, youth exchange programmes, co-operation of museums, schools and self-governing bodies.

The city of Gdansk is an important partner in international co-operation and integration of Poland with Baltic Europe. In Gdansk, the Union of Baltic Cities, established in 1991, has its seat in the Green Gate. Also the secretariat of VASAB 2010 (Vision and Strategies around the Baltic Sea 2010) is located there since 1996 as well as Baltic Bureau for Tourism Co-operation. The Gdansk Economic Chamber belongs to BCCA (Baltic Sea Chamber of Commerce Association), the Gdansk port belongs to the Baltic Ports Organisation, Gdansk University co-operates with the Baltic University seated in Uppsala in Sweden. These few examples indicate that the initiatives in Gdansk, undertaken by the city and region in many fields (e.g. economy, science, culture, social and communication) constitute a

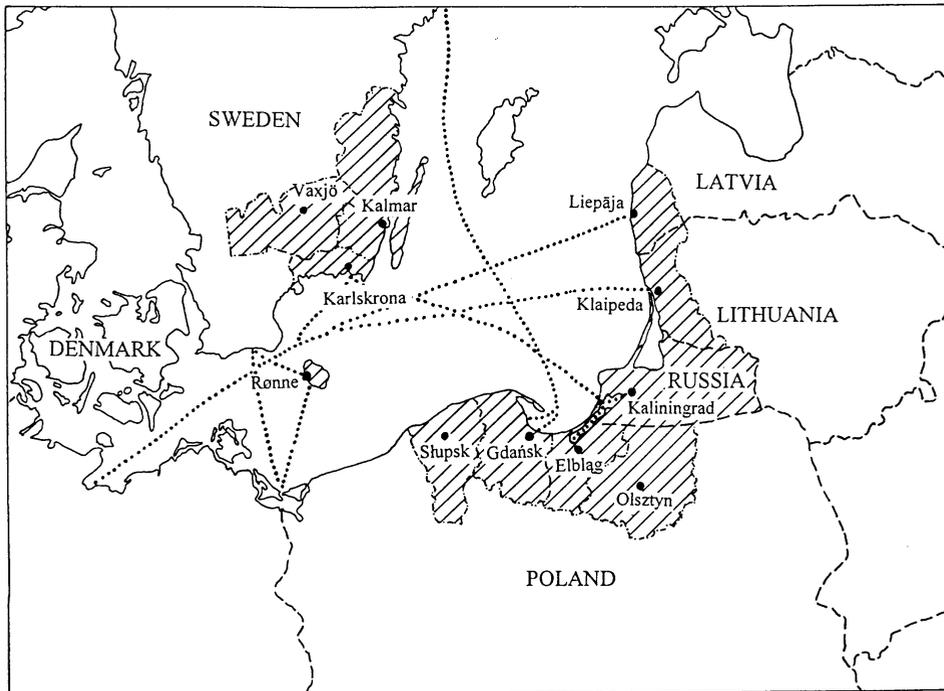
significant input to Baltic integration, and that Gdansk today is an open, European Baltic city.

4. The Polish province stretching furthest eastwards on the Polish coast is the Elblag province. The geographical location affected the direction and fields of cross border co-operation of this province. Four agreements signed with the Kaliningrad District refer to border crossings and co-operation in scope of agriculture, and food processing industry. Six agreements have been signed with Sweden, mainly in scope of local governments of Blekinge, Karlskrona, and Ronneby concerning environmental protection, local democracy, economic promotion, communication, tourism education and culture. Elblag province has also signed one agreement with Denmark and one with Latvia.

5.3 The Baltic Euroregion as a new area of co-operation in the Baltic Sea region

The authorities of Elblag province had initiated the establishing of the new Baltic Euroregion (see Fig.2) on 22nd of February 1998. Representatives of local governments of six countries: Denmark (Bornholm), Sweden (Kalmar, Kronoberg, Blekinge), Lithuania (Klaipeda), Latvia (Liepaja) and Russia (Kaliningrad District – Kaliningrad, Baltijsk) and four Polish northern provinces (Slupsk, Gdansk, Elblag and Olsztyn) decided to develop closer economic and cultural ties. This Euroregion will favour equalised adjustments in life standards of Baltic communities taking advantage of European Union aid.

Figure 3. The Baltic Euroregion



The Euroregion, called by some the “Small European Union round the Baltic”, will facilitate contacts between people, learning about the past and contemporary history of the neighbours, draw young people together and lift historical prejudice. The proposed spheres of co-operation include assistance in economic development and trade, development of technical infrastructure, management of border regions, improvement of environmental conditions, waste management, co-operation in the fields of culture, science and education.

The establishment of the Baltic Euroregion formalises existing contacts between the local authorities and municipalities in the area. By giving the co-operation a formalised and institutional dimension the hope is to spread the competencies of each local authority and to create a friendly environment for reaching their goals.

The Baltic option is one direction of Polish foreign policy, and a very important one if national welfare is taken into consideration. It is not only the local authorities but also local businessmen who rely on the inspiring influence of Baltic co-operation for the economic development of the region. Polish ports also see the possibility of developing in areas such as additional cargo and passenger ferry lines.

Co-operation in the Euroregion is to be governed by the principles and values confirmed in the program VASAB 2010:

To promote sustainable economic development with due consideration to the environment;
Decrease spatial disharmony, discrepancies between regions (economic, social, environmental) - equal use of space, interregional solidarity;

Enable regional participation in the development of the whole country, in undertaking decisions on the national level based on the individual features of their identity - variety, democracy, subsidiary;

Providing opportunities for inhabitants to choose - place of residence, profession and ~~city~~.

The first meeting of the Euroregion Council (on 23rd of February 1998) passed a resolution to establish three working groups for:

- spatial planning;
- social welfare, culture, sport, science and education;
- ecology and environmental protection.

On the 6th of April 1998, during the meeting in Gdynia of spatial planners from the Euroregion, the first group started to work.

5.4 Other examples of co-operation activities in the South-East Baltic

The representatives of regional authorities, commercial chambers, cultural institutions and non governmental youth organisations from all coastal provinces in Poland take an active part in the Baltic Sea States Subregional Conference organised thanks to the initiative of the Council of the Baltic States. Another example of endeavours is the establishment in Kotka, in 1996, of the Baltic Sea Commission to cease depreciation of the Baltic Sea, enhance proper economic development, relevant education, decentralisation and procurement of financial means to develop the region.

Seven Polish cities in the Polish coastal provinces (Elblag, Gdansk, Sopot, Gdynia, Leba, Szczecin and Swinoujscie) are actively engaged in the work of the Union of Baltic Cities and its committees. Their activity is aimed at ecological, cultural and social benefits for the whole society in the region of the Baltic Sea and especially the 77 cities of the ~~region~~.

Representatives of Polish institutions and organisations are active members co-operating with

such Baltic organisations as for example, the Baltic Sea Chamber of Commerce Association, Baltic Ports Organisation, Baltic Sea Alliance, Baltic Sea Tourism Commission, The Baltic University Programme Helcom, Baltic Institute, Association of Baltic National Parks, Baltic Environmental Education network, Ars Baltica, Social Hansa, The Conference of Baltic University Rectors or Association of Museums and Castles Around the Baltic Sea.

Special attention should be paid to the VASAB 2010. Thanks to these programmes the region around the Baltic has the opportunity to become better integrated in Europe and become an area with a healthy natural environment and balanced development. The achievement of a synergy effect is also intended by harmonising spatial development policies realised in the countries round the Baltic Sea.

The principal elements of development in VASAB 2010 take into consideration Polish interests associated with developing:

- A system of attractive and competitive towns which take advantage of their coastal location. An important role is to be played by Tri-city as Europol and Szczecin as a bridging city affected by Berlin, and furthermore the towns of Koszalin, Slupsk, Elblag and Olsztyn as important centres linked in the Baltic network;
- Multimedial transport centres network crowning the European A-1 links and TER links to Via Hanseatica and A-3 in maritime co-operation, promoting pro-ecological transport (ferries and railway);
- Establishing of the Green Baltic Ring incorporating the complex of Polish Green Lungs in Europe, a system of ecologically valuable areas. It creates an opportunity of practicing yachting, cycling, water sports and other forms of environmental tourism and agrotourism;
- Border line co-operation contributing to improvement in economic and social integrity. The development of Euroregion Pomerania and Baltic should prove useful to this purpose.

Lately, a financial mechanism to encourage partners from the area of the Baltic Sea to undertake intensive co-operation in scope of spatial development INTERREG IIC (European Union programme for transnational co-operation on spatial planning) has been developed. During the conference in Karlskrona, in December 1997, 5 projects were presented (from northern Poland) and 16 in the development of which Poland had participated.

5.5 Conclusions

The accession of Sweden and Finland to the European Union completely changed the spatial configuration of the European Union. The Baltic may constitute a way for Poland to united Europe. As of today, VASAB 2010 ensures harmonisation of spatial development and close co-operation within the framework of specific projects and several European Union states.

The XXI century in Europe will be a Europe of regions. The transformations in the political and economic image of Baltic Europe shall no doubt affect integration processes in Europe, to enhance or even alter its course. The future of Baltic Europe depends on many factors. Every region has individual characteristics, dominants, traditions, ways of thinking and acting.

The evolving 'Baltic identity' stems from the fact that the various states aim at differentiated targets but for all the route goes through a regional „commonwealth". This is emphasised in all Baltic states and should constitute a point of departure for further decisions and actions. The decision on selection of partners for co-operation should not derive solely from geographical neighbourhood but above all from convictions on the significance and possibilities of development of the area.

A few years ago, Baltic Europe was perceived only as a concept, a vision for the far future. Facts have quickly followed the vision. Presently, the term refers to numerous activities of various importance; interactions and relations already enacted in the area. Further development of the area depends on many factors, among them economic transformation in Poland and the Baltic Republics, as well as on whether developed Baltic countries will be capable of providing - necessary to ensure economic development in the region - assistance in the field of economy, finance and technology to neighbouring countries in order to eliminate the existing economic and social gaps between different Baltic sub-regions.

Closer co-operation of Poland with Baltic partners may significantly affect the shape and fate of the Baltic „community", which for Poland is a scheduled challenge.

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6. Tourism Images and Perspectives in the Vidzeme Region of Latvia

By Gunars Bajars, Ilgvars Abols, Ilze Drukmane and Baiba Gibiete, Latvia

6.1 Introduction

Tourism has developed to be one of the leading industries in the world. In 1994 income from tourism exceeded 3.4 trillion dollars, 655 billion dollars were paid off for taxes, every ninth employee worked in tourism industry, 11.2% of world's investments were invested in tourism (McIntosh, Goeldner and Ritchie 1995). By the year of 2005 the planned income and amount of investments in tourism industry will increase more than twice and the number of employees in this industry will increase for 40%.

During the last years in Latvia more and more attention has been paid to tourism industry. Great importance in the local municipalities development plans is attached to tourism. Almost every municipality in the Vidzeme region considers tourism as one of the main branches in their development plans. Nevertheless it is only a hypothetical assumption as far as there are no scientific researches about tourism industry neither in Latvia nor in the Vidzeme region. World-wide the greatest demand for tourism research comes from government, municipalities, tourism enterprises and non-governmental organisations (Ritchie and Goeldner 1994). The demand for tourism research in Latvia is poor because of insufficient financial resources. Besides tourism research is very complicated because of varied social, environmental, economic and other aspects of tourism. Tourism includes many disciplines - marketing, psychology, geography, anthropology, economics, history, politics, planning and modelling, futurism etc. Multidisciplinary approach and co-operation of the specialists of different branches is very necessary.

This research project was done by Vidzeme University College Department of Tourism Organisation and Management together with Latvian Tourism board, thanks to support from the Vidzeme Tourism Association. The aim of the project was to find out how municipality employees, employers and employees of tourism, tourism students and other people related to tourism of the region understand tourism and what problems and perspectives of tourism in Vidzeme they see. This research project is just the first stage of significant analyses of tourism industry in Vidzeme and the first step for the regional tourism development plan.

6.2 Method

The research method was a self-administered questionnaire consisting of four sections:

1. Image of the Vidzeme region.
2. Tourism resources and destinations in Vidzeme.

3. Tourism determining factors.
4. The perspectives of tourism development in the region.

Respondents were also asked to give short information about themselves: age, sex, residence, education and occupation. 500 questionnaires were sent by post (189 - to municipalities, 311 - to tourism enterprises and other organisations involved in tourism). Other organisations are secondary schools with tourism education, traffic and catering enterprises. 200 questionnaires were distributed by directly approaching respondents (80 - to students of tourism, economics and management, 120 - to municipality and tourism enterprises and organisations in Valmiera). Sending by post was used to survey broader range of respondents from the whole Vidzeme. The respondents filled the questionnaire independently and the time for answering was not limited.

288 questionnaires were received and used in the research. 145 of them were received by post, 143 - directly approached. It means that only 29% of questionnaires distributed by post are received back (47 or 25.5% of sent - from municipalities and 98 or 31.5% of sent - from tourism enterprises and other organisations involved in tourism). An activity of directly approached respondents was much higher - 71.5% of questionnaires were received back.

As next we will describe the sample of our research. Of those 288 respondents 85 were men (30%) and 203 women (70%). Dividing respondents in groups considering their age (up to 20 - 34%; from 21 to 30 - 17%; from 31 to 40 - 16%; from 41 to 50 - 22%; 51 and older - 11%) we found out that younger people predominated. And it is not surprising considering that many tourism students and pupils were taking part in the questionnaire.

82% of respondents live in Vidzeme, 13% come from Riga and 5% from other regions of Latvia. Respondents who does not live permanently in Vidzeme work or study there. Respondents of 14 districts of Latvia took part in the questionnaire as well as 36 respondents from Riga and 1 from Jurmala. The most frequent districts were Valmiera district (61), Cesis (58) and Limbazi (53) districts (see Graph 1). Approximately according to the total view in Latvia the respondents living in town comprise 64%.

The educational level is rather high - 47% respondents have the highest education, 40% - secondary and only 13% - elementary education. Occupation was very important for this research, we have divided occupational status in 6 groups: tourism students (21%), employees in tourism (19%), employees of schools with a tourism education (15%), pupils of secondary schools with a tourism education (13%), municipality employees (12%) and tourism entrepreneurs (6%). Have to mention that we hoped to receive more answers from the last two groups. The rest 14 % comprise respondents of industries related to tourism (traffic, catering, entertainment, etc.) whose occupation could not be included in the groups mentioned above.

The method used in this investigation is selected group survey because all 288 respondents are involved or close related to tourism. The number of respondents exceeds 1% of all people involved in tourism in Vidzeme. The selected sample includes respondents from a wide variety of tourism industry and education, as well as tourism related branches, which provides the sample's representation.

6.3 Results

6.3.1 Image of Vidzeme

One of the Latvian Tourist board's tasks for the year 1997 was to find tourism images for Latvia and its regions. In our research we have tried to find the best ideas for tourism image. The offered tourism images of Vidzeme region according to their content can be divided in 5 groups: nature, cultural landscape, people, location and culture.

Most of respondents offered images that are connected with nature like: "The country of picturesque hills", "Vidzeme - the country of woods and waters", "The country of graves and majestic oaks", "The most splendid and most hilly Latvian region".

Many respondents use cultural landscape - "The pearl of Latvian landscapes", "The most splendid region", "God's given nature pearl".

Some respondents successfully use human factors: "Vidzeme - region of activity and hospitality", "The most Latvian and active region", "Oasis for soul".

A lot of respondents offer tourism images emphasising cultural values: "Land of tales and legends", "The forge of Latvian culture", "Land of cultural heritage".

Some respondents see the image of Vidzeme together with its geographic location: "The north of Latvia", "The bridge to Estonia".

The most characteristic features of Vidzeme

Describing features of the Vidzeme region the thoughts of respondents correlate with those that have been expressed earlier (Apsite, Krisjane and Rozite 1996). The variety of nature is the most mentioned feature (245 respondents). Many people mention monuments of history and culture (127) and cultural landscapes (95). That is followed by untouched and clean environment (53) as well as possibilities for active tourism (35) and also variable activities of sport and culture (30). They all together comprise the most important tourism resources in Vidzeme. Such features as economic activity (20), hospitality (18) and transport accessibility (26) are mentioned less often (see Graph 2).

The differences from other regions

This part of research emphasise the most characteristic features for Vidzeme region. The most essential difference from other regions is Vidzeme relief (113 respondents), where picturesque hills contrast with rivers, lakes and marsh-lands, where one can enjoy beautiful stony beach and find the highest hill and where the longest river in Latvia starts.

Vidzeme can be also acquainted with its cultural landscape (69) and cultural heritage (64). We should also mention rivers (44), variety of flora and fauna (42), tidiness (39) and the character traits of Vidzeme inhabitants (37), that probably are the basis for more developed infrastructure and higher economic activity (32).

Summarising characteristic features of Vidzeme, we came to an interesting conclusion that natural and man-made differences (accordingly 45% and 46%) are of the similar numbers. This leads to a conclusion that both the inhabitants and nature are significant for creating an environment attractive for tourists. One should remember this when developing tourism infrastructure, services and attractions in the Vidzeme region (see Graph 3,4 and 5).

An essential difference is compactness of the architectural and nature monuments (8%). Only one per cent of respondents says that Vidzeme does not differ at all from other regions.

6.3.2 Tourism resources and destinations in Vidzeme

The main tourism objects in Vidzeme.

Considering that the respondents have mentioned a lot of objects we have grouped them by districts according to the administrative division of Vidzeme. The most popular is the Cesis district. 25% of all objects mentioned by the respondents are located there. Then comes the Valmiera district with 20%, the Riga district - 19%, the Limbazi district - 15%, the Madona district - 14%, the Aluksne district - 5%. The objects in other districts of Vidzeme compile only 2 per cent. 41% of the mentioned objects are located in the Gauja National Park. These numbers show that the most popular tourism objects are concentrated in a relatively small territory. Ten most popular tourism objects in Vidzeme are shown in Table 1.

Table 1. The most popular tourism objects and events in Vidzeme

Nr.	Object	Nr. of respondents	Event	Nr. of respondents
1.	Sigulda and its surroundings (Turaida, Krimulda)	178	Sigulda Opera Music Festival	140
2.	Cesis	160	Scrambles motoraces	71
3.	Stony beach of Vidzeme	124	Imanta dienas	67
4.	Gaizinkalns	93	Beer Festivals	67
5.	Mazsalaca	93	Song and Dance Festivals, concerts	66
6.	Piebalga	62	sports competitions in Valmiera stadium	47
7.	Ligatne	54	Hot Air Balloon Festival	46
8.	Aluksne	40	Bobsleigh and sledding competitions	46
9.	Araisi and its surroundings	39	Town Festivals	45
10.	Rauna	31	Streetball and basketball competitions	42

The most popular events in Vidzeme

The respondents have mentioned a great variety of events such as song and dance festivals, theatre performances, folk festivals, different sports competitions, fairs, beer festivals, town festivals, etc.

It was difficult to find criteria to classify these events because the respondents attend different sports and cultural events as both viewers and participants. That is why we have distinguished two large groups: cultural and educational events (mentioned 422 times) and sports and entertaining events (505 times). Ten most popular events are shown in Table 1.

Information about tourism objects and events is very important for successful tourism development. One has to consider them while planning routes and thinking about the development of the whole region by attracting more tourists, by using and tidying existing tourism objects, and by creating new objects and events.

Tourist motivation

What is the motivation that attracts tourists to Vidzeme according to the respondents' thoughts? What are the main reasons for visiting Vidzeme? It turned out that most of the respondents opinions tourists want to see and learn something new (198 respondents) or just relax from daily work and stress (197). Active relaxation is also very important as well as the possibility to do one's favourite sports (122). So is also the possibility to entertain (62). Both business trips (22) and visiting friends and relatives (15) are less stressed. It can be explained by the fact that not all respondents consider them as a type of tourism (Fridgen 1996; Madrigal and Kahle 1994). The same problem is with shopping mentioned by 6 respondents.

Most popular tourism types

There are different ways to classify types of tourism. In this research we chose three most popular ones: grouping by the character, the aim of the travel, and way of transportation (McIntosh, Goeldner and Ritchie 1995; Ritchie and Goeldner 1994; Apsite, Rozite and Krisjane 1996).

The classification by the character of travelling shows that the group tourism (73% of respondents) is the most popular one in Vidzeme, it is followed by the family tourism (22%), and individual tourism (5%). These numbers reflect the main view of the society that the mass tourism is the most profitable economically and therefore it should be supported. But we think that it will change because nature friendly tourism (individual and small group tourism) as well as family and country tourism becomes more and more popular world-wide.

Classification by the aim of travel (where active tourism makes 70%) differs essentially from the previous section about the tourist motivations. Special interest tourism (8%) includes fishing, hunting, bird watching, and some less popular sports and entertainment (Weiler and Hall 1992). Cognitive and recreational tourism is correspondingly is only 4% and 14% (see Graph 6).

This is not surprising because not all respondents understand the term “type of tourism” alike. Usually they think of the action, i.e., active tourism. The respondents consider that active tourism comprises boating, cycling, hiking, and skiing. To a certain extent it is a classification by the way of transportation. When car tourism is added we obtain the following results: boating - 31%, car tourism - 21%, cycling - 19%, hiking - 18%, and skiing - 11%.

6.3.3 The tourism determining factors in Vidzeme

Tourism promoting factors

All tourism contributing and restraining factors have been divided in seven large groups: geographical and environmental factors, cultural factors (tourism objects and events), tourism infrastructure and service, economic factors, political factors, information and education as well as social and psychological factors (Ritchie and Goeldner 1994; Fridgen 1996). This division enables to interpret the results more efficiently and to stress the things that have to be done in order to develop tourism in our region.

Speaking about tourism promoting factors in Vidzeme, three main groups should be stressed: geographical and environmental factors (26%), cultural factors (40%), tourism infrastructure and service (20%). Other factors comprise 14% (see Graph 7).

Geographical and environmental factors. Untouched and pure environment comprise 58% of all factors in this group, and more than one third of all respondents think that this factor is essentially important for successful tourism development. Favourable geographical location (28%), tidiness (11%), and climate (2%) attract more tourists to Vidzeme.

Cultural factors. The amount and variety of tourism objects comprise 55% of the factors of this group and almost half of the respondents have mentioned it. Attractive cultural landscape (20%), cultural and sports attractions (16%), and possibilities for active recreation (9%) are significant factors too.

Tourism infrastructure and service. In this group the most frequently mentioned factor is sufficient transport network (49%), that is followed by good level of tourism services (27%), and a network of hotels and guest houses (19%). Communication services comprise only 5 per cent.

From other mentioned tourism contributing factors we have to remember responsiveness and activity of the region's inhabitants (34 respondents), advertising and information (23), acceptable prices (9), although they are higher than in Estonia, and the intellectual level of inhabitants (7).

Tourism restraining factors

We have divided the mentioned tourism restraining factors in four large groups: tourism infrastructure and service (39%), economic factors (12%), information and education (23 %) as well as social and psychological factors (11%), (see Graph 8).

Tourism infrastructure and service. We consider that insufficient tourism infrastructure and service characterise the real situation in Vidzeme. How is this real situation perceived by the respondents? First of all it is lack of accommodation (34%), and bad quality roads (29%), then comes poor level of tourism services (16%), lack and poor quality of toilets (9%), insufficient transport network (6%), poor level of communications (4%) and lack of sports facilities (2%).

Economic factors. These factors influence the development of tourism infrastructure and service. From economic factors we have to mention insufficient financial aids for tourism development (62%), that is highly connected with the economic situation in the country (11%). Expensiveness of services is an important tourism restraining factor (22%), land owners endeavours to limit tourist flows on their land are less mentioned (4%), so is the competition with other regions of Latvia (1%).

Information and education. In this group the most significant restraining factor is insufficient information (82%). The lack of tourism education (8%) and cooperation (7%) and the lack of experience are less mentioned. It is surprising that only one per cent of the respondents con-

sider language barrier as a restraining factor, maybe it is because of a relatively small number of foreign tourists in Vidzeme.

Social and psychological factors. In this group disbelief in tourism compile 25%, infectious diseases - 25%, insecurity - 21%, negative attitude towards tourists - 11%, bureaucracy - 11%, and mentality of Latvians - 7%.

Other tourism restraining factors are untidiness (mentioned by 39 respondents), lack of tourism politics (35), entertainment (20), and regional planning (9) as well as climate (4), border crossing problems (4) and even the stony beach (2).

Table 2. The most important tourism determining factors in Vidzeme.

Nr.	Promoting factors	Nr. of respondents	Restraining factors	Nr. of respondents
1.	Amount and variety of tourism objects	139	Insufficient information	147
2.	Untouched, pure environment	98	Lack of accommodation	104
3.	Transport network	65	Bad quality roads	86
4.	Cultural landscape	50	Insufficient financial aids	59
5.	Geographical location	47	Low level services	49
6.	Facilities for culture and sports	41	Untidiness	39
7.	Good level of services	35	Lack of tourism politics	35
8.	Responsiveness and activity of inhabitants	34	Lack of toilets	26
9.	Network of hotels and guest houses	25	Expensiveness of services	21
10.	Possibilities for active recreation	24	Disbelief in tourism	20
			Infectious diseases	20
			Lack of entertainment	20

What should be done to develop tourism in Vidzeme?

According to above mentioned division of tourism determining factors we have analysed the following important questions: what should be done to attract more and more tourists to Vidzeme, to get them to stay here for a longer time, to use the offered goods and services, and, of course, leave more and more money here.

What do the respondents suggest to do to develop tourism in Vidzeme? First of all, they suggest to work on development of information and tourism education (36%), although the insufficient development of tourism infrastructure and quality of services was mentioned as the main tourism restraining factors. Of course, the development of information and tourism education is important but it is disputable whether it is more important than the development of infrastructure and services (29%). The changes and improvement in other tourism related

branches are not considered so important for attracting tourists to Vidzeme: political factors compile 11%, cleaning up the surroundings - 9%, creating new tourism objects and large scale events - 7%, development of economic situation - 6%, social (security) problems - 2%.

The main suggestions for tourism development in Vidzeme are:

- advertising, information and marketing (198 respondents);
- improvement of infrastructure (127);
- cleaning up the surroundings (58);
- developing tourism politics (43);
- improvement of the quality of services (39);
- investments (36);
- creating objects for entertainment (29);
- tourism planning (28).

The importance of Vidzeme tourism image is mentioned only four times (but it can be considered as a part of tourism marketing). Only one respondent has mentioned the necessity of speeding up the privatisation process in Latvia.

6.3.4 Tourism development perspectives in the Vidzeme region

Potential markets of Vidzeme tourism product

Of course, tourists from all the countries should be attracted to Vidzeme, not considering their sex, race, income, political convictions, and personality. Anyway, one should keep all this in mind to maximise the income from tourism. With this question we wanted to find out the respondents' thoughts about potential markets of Vidzeme as tourism product.

Analysing the results of the questionnaire we divided all potential markets in four large groups with three regions in each. First of all, marketing should be directed towards Northern-European countries (198 respondents), other regions of Latvia excluded Riga (181), and Western-European countries (176). Secondly, Riga (145), Commonwealth of Independent States (124), Lithuania and Estonia (123). Thirdly, Eastern-European countries (70), USA and Canada (70), and Asia (60). The last group contains Africa (32), Australia and Oceania (29), and Latin America (19), but it is unlikely that there could be large tourist flows from these regions to Latvia and therefore it would not be worth to invest in advertising in these regions.

The negative consequences of tourism in Vidzeme

We should mention that the respondents are quite optimistic about different influences and

consequences of tourism. The amount and variety of negative consequences are less stressed than the positive ones. One of the biggest problems is environmental pollution, exceeding of environmental capacity and other negative changes (57%). See Graph 9.

Disturbance of social and psychological environment (17%) is less mentioned, that comprises the increase of crime (20 respondents), disturbance of peace and quiet (15), distribution of infectious diseases (13), as well as the development of negative attitude towards tourists among the local inhabitants (9). The damage of cultural heritage compile 10%. Some respondents have mentioned the world-wide problems such as the development of tasteless advertisements and commercialisation of cultural heritage in tension to maximise the profit.

Some other negative consequences are invasion of foreigners in Latvia (mentioned by 13 respondents), inflation (8), traffic jams (4), decrease of service level (3), and the development of negative image of Latvia (2). 27 respondents have stressed that there are no negative consequences of tourism in Vidzeme.

The positive consequences of tourism in Vidzeme

All respondents have mentioned the positive influence of tourism on the development of the region, that shows their positive attitude towards tourism. Particularly they emphasise the economic growth in the region (56%), that contains the development of finances and economics (185 respondents) and creating new jobs (67). See Graph 10.

The positive influence of tourism on other branches will be less significant. 12% of respondents mention the improvement of environment, that is connected with the tidying of the surroundings (45) and the preservation of ecologically pure environment (8). 11% of respondents think that political climate will improve (development of image of Latvia - 27, and improvement of international co-operation - 22). The development of infrastructure and service (according to the opinion of 10% of respondents) is connected with the improvement of transport network (25) and the quality of tourism services (19). Besides that the development of tourism could bring to the growth of the level of education (23) and culture (29) in the region. The respondents have not mentioned the positive influence on social and psychological aspects but it is known that the growth of economy gives significant contribution to the development of social standards (Kotler, Bowen and Makens 1996). We cannot overestimate the significance of creating new jobs and its influence on the social and psychological spheres.

6.4 Discussions

The creation of Vidzeme tourism image is an important problem. The authors consider that it is not worth to choose one image of Vidzeme but it is necessary to create different images for different markets. The image for domestic market should attract tourists from Riga and other

regions of Latvia and should differ from the one for Western-European market. Different image should be created for Russia and other Commonwealth of Independent States countries as well.

It is necessary to continue the research about the tourism influence on the development of the region. Although the largest part of the respondents is quite optimistic about the positive influence of tourism on the development of the region, it needs a serious and reasonable research. The negative influence of tourism on the region should be analysed. Already now some respondents indicate popular tourism objects where the capacity of the environment is exceeded. It means that tourism impact on the environment must be considered more seriously before it is not an enormous problem like in some objects and even regions in Europe (Briassoulis and Van der Straten 1993). We should analyse the answers of the respondents from every district separately as well as carry out similar questionnaire among the tourists.

Comparing tourism promoting and restraining factors we got interesting results. Several tourism determining factors are mentioned both as restraining and as promoting. For example, the transport network and the bad quality of roads at the same time are restraining and promoting factors (see Table 2). First of all, the results are influenced by the respondents' residence. The respondents living in Riga and close to highways considers transportation as a promoting factor while others - as a restraining factor. Secondly, part of the respondents use their own cars, but others - public transportation and that makes the difference when evaluating this factor. Similar situation occurs when evaluating the quality of services. The lack of accommodation is mentioned more often than the sufficiency of accommodation and generally it reflects the situation in the respondents' residence.

It is necessary to determine the borders of the Vidzeme region, because the existing administrative division divides some districts between Vidzeme and other regions of Latvia. The historical division of the regions (in 1920-ies and 1930-ies) is not acceptable either. This is very important for inhabitants living on the right bank of the Daugava in the Ogre and Aizkraukle districts.

6.5 Conclusions

Analysing the results of the survey we have found out the most important tourism resources in Vidzeme: the variety of nature, cultural heritage, cultural landscape, pure and untouched environment (if compared to other European countries), facilities for culture, sports and active tourism.

The largest tourist flow in Vidzeme concentrates in the territory of the Gauja National Park. Many respondents associate tourism in Vidzeme mainly with Cesis and Sigulda (see Table 1). Usually tourists concentrate in one place in the district: in the Riga district it is Sigulda; in the Cesis district - Cesis; in the Valmiera district - Mazsalaca; in the Limbazi district - seaside; in

the Madona district - Gaiziòkalns. Other tourism objects are mentioned considerably less often. Decentralization of tourism in Vidzeme is required to avoid the concentration of potential tourism resources in one place. Large tourist flows destroy the environment and develop negative attitude towards tourists among the local inhabitants (Briassoulis and Van der Straten 1993; Fridgen 1996).

The list of the most popular events shows that the traditional events such as Opera music festival and Hot-air balloon festival in Sigulda, Imanta dienas in Piebalga, Track and field athletics competition - President's Cup in Valmiera, scrambles and moto races, beer festival in Cesis, Gaizins carnival (see Table 1) attracts most tourists. Therefore it is useful to remember these events when planning tourism routes and organising new events.

All the people involved in tourism industry can be thankful for the variety of nature and potential tourism resources in Vidzeme. The Gauja, the Salaca, the Daugava and other rivers provide the opportunity to develop water tourism. The variety of nature and cultural landscapes as well as untouched and pure environment provides large potential for development of cycling in Vidzeme. The inhabitants of Vidzeme should be informed about the changes in tourism market in the world where individual, family or small group tourism dominate. The individual tourism is more nature friendly and leaves less influence on local inhabitants' traditional lifestyle (Smith and Eadington 1992; Fridgen 1996)

This research project analyses the opinions of municipality employees, employees of tourism, other people related to tourism and tourism students about the real situation and tourism perspectives in Vidzeme. These opinions should be taken into consideration when creating a sustainable tourism development conception and developing tourism in the region. The results of this research could be used for local municipalities tourism development plans that could lead not only to economic growth, but also could preserve traditional culture and environment that are significant for further tourism development.

Figure 4. Residential districts of respondents

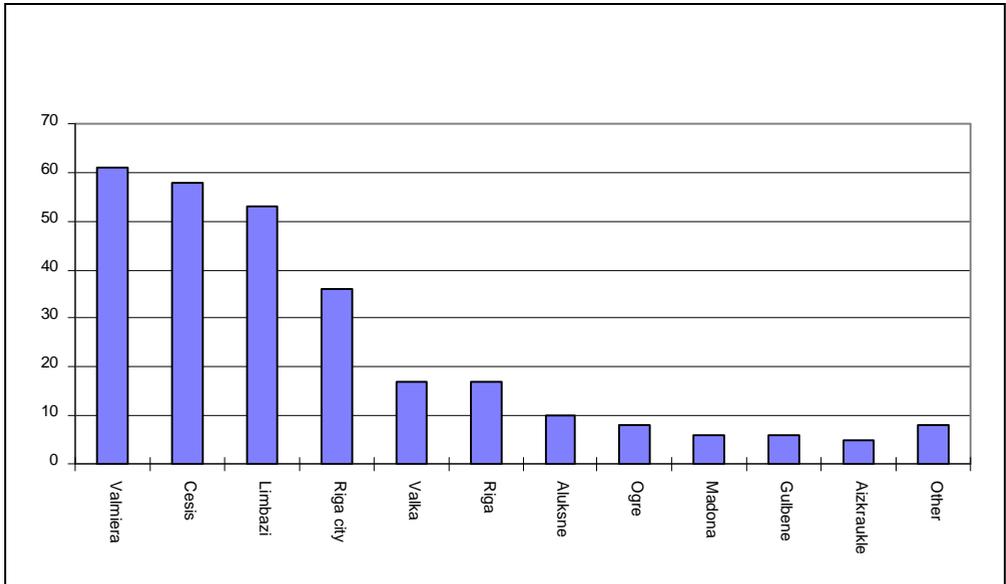


Figure 5. Characteristic features of Vidzerne

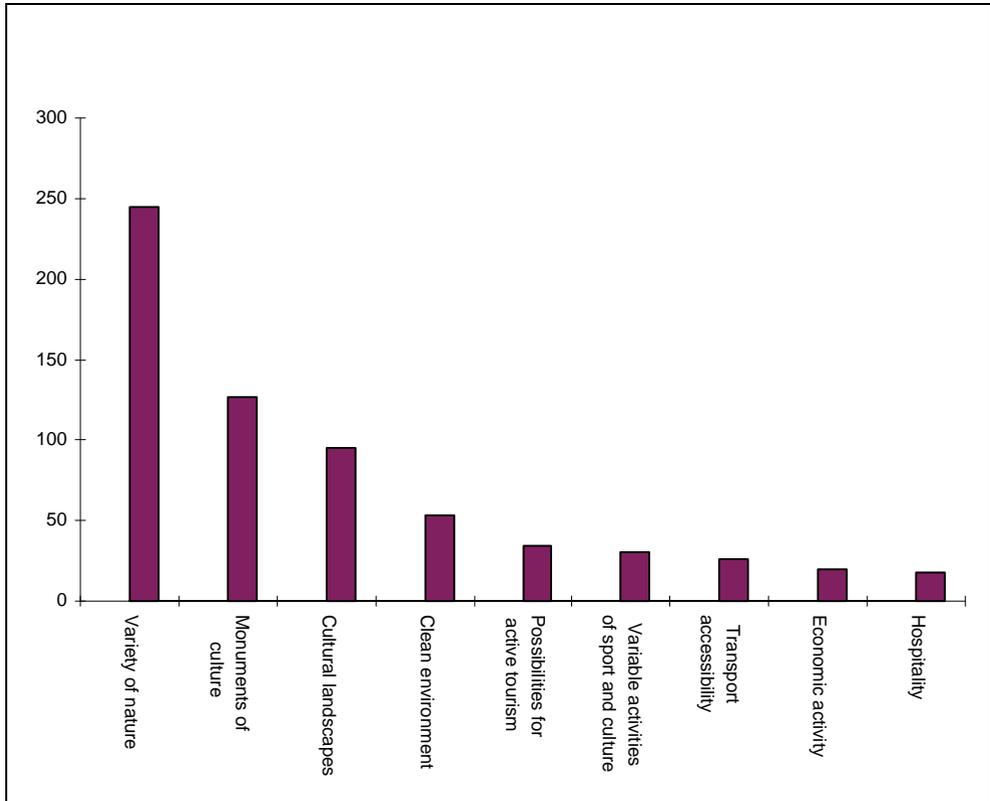


Figure 6. Natural differences

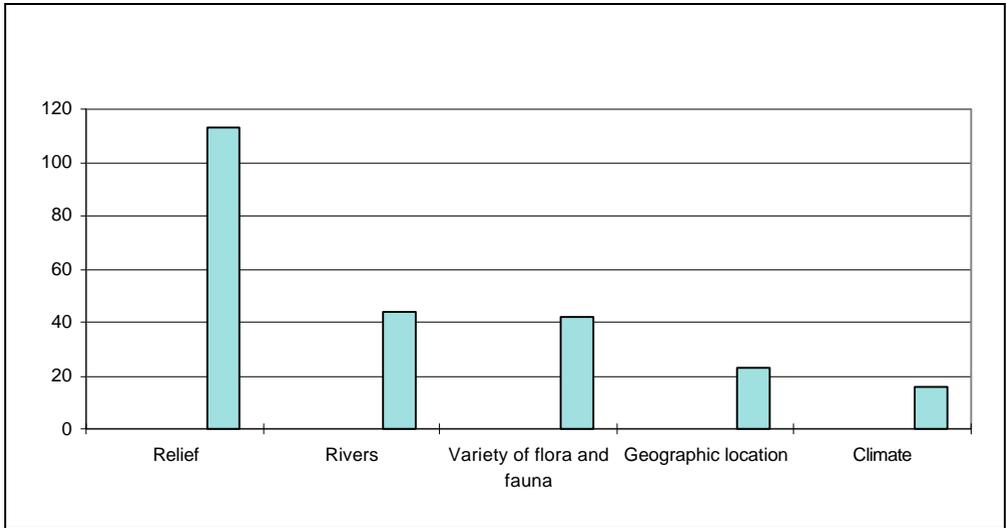


Figure 7. Differences from other regions

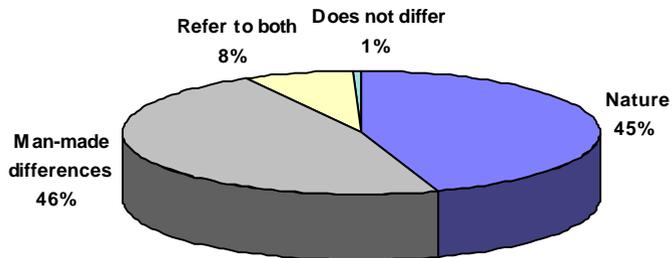


Figure 8. Man-made differences

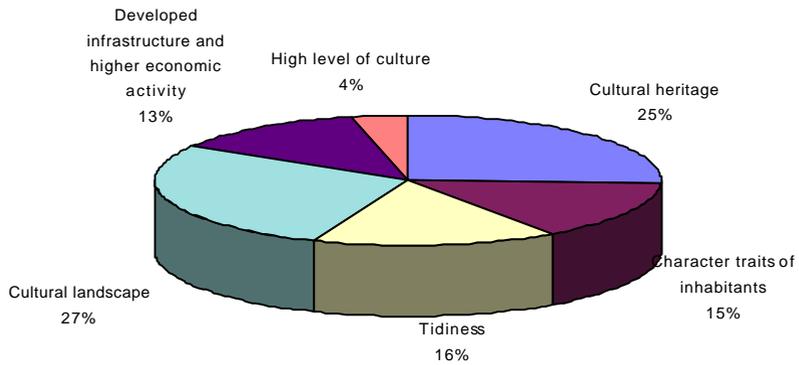


Figure 9. Tourism types by the aim of travel

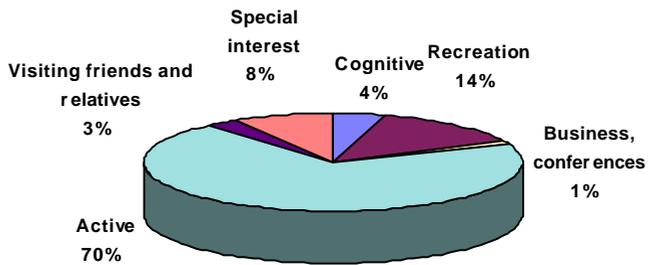


Figure 10. Tourism contributing factors

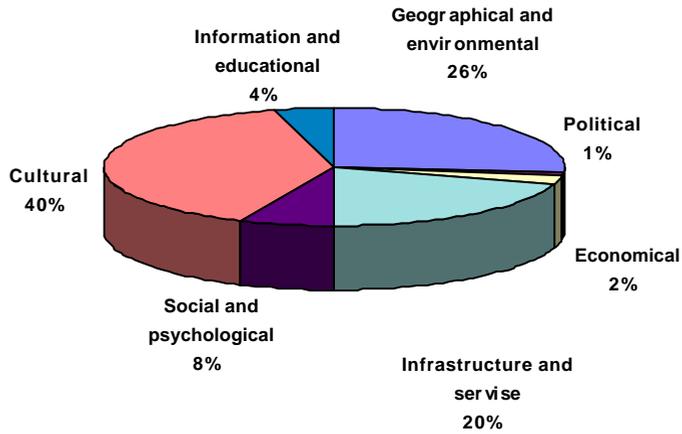


Figure 11. Tourism retarding factors

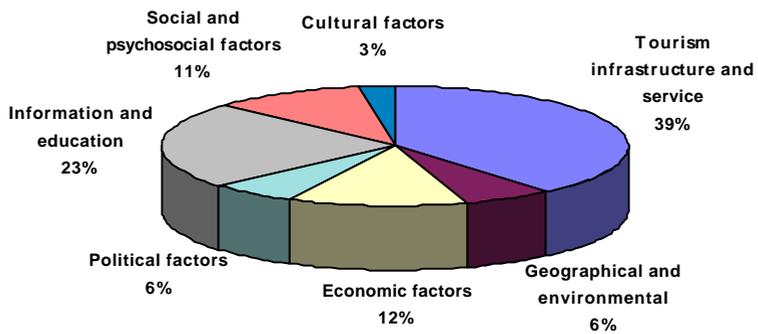


Figure 12. Negative consequences of tourism

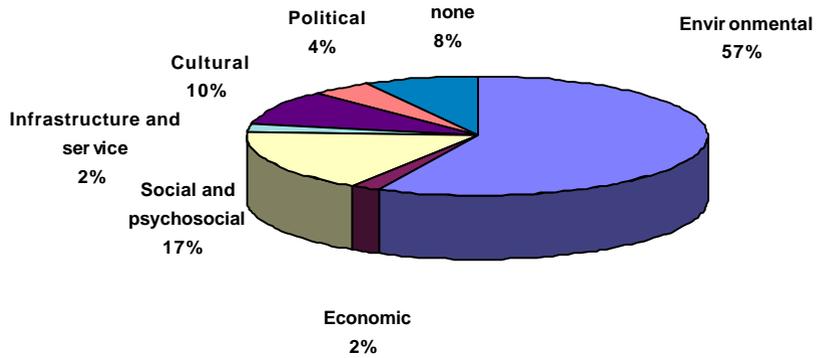
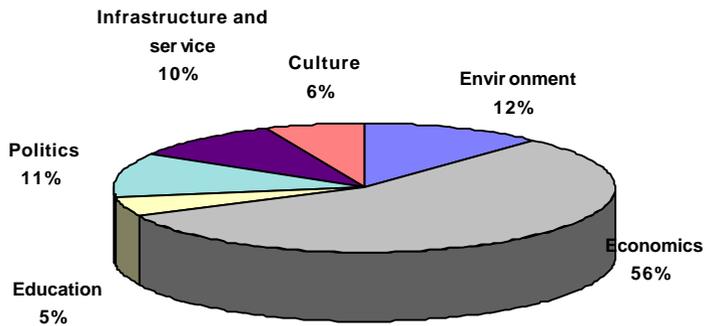


Figure 13. Positive consequences of tourism



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7. Scenario-based thinking in spatial planning: Case Estonia.

By Erik Terk, Estonia

There is a saying that the best way to achieve something is to climb on the shoulders of one's predecessors to see further. In case of spatial planning in Estonia such a precursor is available, – the so-called VASAB project, carried out at the beginning 90s. It may sound provoking, however I must admit that we started Estonian planning process with criticising the VASAB-project "Visions and strategies around the Baltic Sea". The basic idea underlying our program was to do spatial planning in Estonia, basing by and large on the same crucial ideas as VASAB did, however doing it methodologically somewhat differently.

To our understanding, there are some very important alternatives in the development of spatial structures in post-socialist countries. At least it is true in the case of Estonia. First, it is not clear how a country, for example Estonia, will comport, if it is to accede to the EU. Second, it is not clear, (and we should give it some thought), what kind of economy we will have in 15-20 years in this territory. What kind of economic functions we will perform, what will the structure of jobs look like, how expensive and advanced will be the functions we can assume in international economy.

If we cannot answer these questions, it will be very difficult to say something about the future spatial structures, it will be next to impossible to prepare some nice maps. Our idea was to do spatial planning via alternative scenarios, to try to create some probable development scenarios for Estonia; it is only after analysing these scenarios, that we could take the next step to work out the national spatial planning guidelines.

We started from the hypothesis that there are two very important factors for a country like Estonia. The first one is the geopolitics/geo-economic factor. The issue boils down to how to use our location and what the territorial role of Estonia will be, also in a more wide division of labour and trade links (cf. the Figure).

We worked with different versions, while answering these hypotheses. One that foresighted Estonia's integration into the EU, under the presumption that Estonia would still resort to a great deal of economic co-operation with Russia and other CIS countries. In this setting we perceived Estonia as an area of eastward expansion for the EU, and as a gateway towards to Eastern markets.

The other possible version we worked with anticipated that Estonia would become a member of the EU but would retain a peripheral status, rather than being a link between the Eastern and

Western markets.

As to that hypothesis, we made some rough calculations, trying to look at the possible growth rate of the Estonian economy. The economic growth depends to a significant degree on investments made in Estonia. We used, to find the ratio of economic growth and investments, the statistics of some impetuously developing countries. We also made some hypotheses of what kind of structure of investments it would need, what kind of preconditions have to be in place, in order to attract considerable foreign investment to Estonia.

After making those calculations, we posed a hypothesis saying that it could be possible to maintain 3-4% growth rate per year over a longer period. Another alternative was the possibility of a growth rate of 6-7% per year, in view of foreign investments to Estonia.

Another important aspect is the challenge of innovation and information technology, as was also mentioned by Jesper Manniche in his seminar introduction.

In this connection, there are two options open to us. The first one has been dubbed *followers*, concerning the use of information technology: though Estonia will use it, however it will be lagging considerably behind the advanced countries, e.g. the Norden, and does not rely heavily on the IT, for further economical development. A side remark, we have, as per indicators like computers per capita, Internet connections per capita, or cellular phones per capita, the same level as France, and a much higher level than the South of Europe. Hence we believe that we have some potential in this area, also due to the fact that our educational level is quite high. Recent international research done into this has revealed, that the Estonian education indicators are remarkably high, when compared to other countries with approximately the same level of GDP.

We have defined our ambition as *leader*, just meaning fitting our economy and all of our public sector functions to new options the information technology provides us. Here the buzzwords are e.g. Internet banking, Internet trade, distance jobs, computerised logistical systems etc. Currently we have not yet developed such a level of use of information technology. But there are some examples, e.g. the Estonian banking, making headway. When looking at industry, the situation does not seem too good, the information technology has not yet met with whole-hearted welcome in production and economy. Technically it is a matter of creating other types of structure in jobs for the next century.

When combining these two different aspects, we get four possible scenarios. The first scenario, "Southern Finland" is the one where Estonia will be open towards the North and the West, but not towards the East. This scenario describes Estonia as Finland's, or more widely Scandinavia's periphery. As an indicator of this scenario, the percentage of subcontracting, as well as industry basing on natural resources (like forest) in the structure of the economy will be very

important.

The second scenario was dubbed *ferryman*. This scenario, too, foresees Estonia as being open to the Eastern economies and puts Estonia in the forefront, concerning the transit transactions. However, we are not very optimistic as to the feasibility of this scenario. Even though we have impressive growth rate, it is not sustainable enough, because on handling the traffic flows on the East-West direction there is tight competition. In case one does not have a very high standard of information technology and organisational culture, one will turn out loser. This is one reason. Another reason is that Estonia, as a country in transition, is becoming an ever more expensive country. Just now our average salary is a little bit more than 300 USD per month - on such salary level we can perform cheap jobs for the neighbouring countries, like sub-contracting. But as soon as our salary level rises to 500 USD per month, we will not look like a good partner for doing sub-contracting any longer. I believe that Finish and Swedish business people will be, in the future looking forward to working with St. Petersburg or Belarus, as regards the niches of cheap labour.

The third scenario, dubbed *military info-oasis* is hypothetical, being an attempt to raise the technological level of our economy, without opening the country to both sides. Such a scenario is possible if the enlargement of NATO is faster than the enlargement of the EU. However, this is not a likely scenario.

The fourth scenario was dubbed *Grand slam* or *Interface*. It is a combination of an attempt to be open to all geographical sides, and at the same time to develop a high level of information technology.

This was how these scenarios were constructed. All named scenarios have been expounded in detailed texts. We used an econometric model from the Bank of Estonia, and tried to find the parameters of the balance of payments for each of the scenarios.

What I tried to show you was how different Estonia will be within the different scenarios. The structure of external connections will be different, the economic structure will be different, the lifestyles will be different, the international environment, in which we must operate, will be different. When comparing Estonia as it is today with the Estonia as it used to be 10-15 years ago, external connections and the structure of our trade partners have changed dramatically. For example, in the late 1980's, Russia accounted for more than 80% of our foreign trade; today it is less than 20%.

But looking at the internal structure of settlement, there are few changes. It is 80% the same. There are two main changes, concerning the port of Muuga, a huge port near Tallinn, on the basis of which a logistical junction of international importance has evolved.

Second, the structure of telecommunication has been overhauled and updated, as compared to the Soviet period. But when you look at the settlement systems, e.g. roads or railways, there are only small investments, and consequently few changes.

We in Estonia have for long had such an opposition between the industrial Northern part of Estonia and the Southern part, being an agricultural area. There has been, starting from the Soviet period, quite a big difference between these two parts. During the transition period, the said differences have been deepening. For example, there is practically no unemployment in Tallinn, but there is high unemployment in the South of Estonia. The same picture goes for foreign investment.

The Estonian transportation networks cater to the international carriage, hence in case of different scenarios the development of different transport corridors will actualise. In case of the “Southern Finland” scenario the emphasis will be laid on the corridor Via Baltica, i.e. the transport link of Finland with Central Europe, running across Estonia. Rather important, in that case, is the link between two major towns of Estonia – Tallinn and Tartu. “*Ferryman*” (to a certain extent this pertains to the *Great Slam* scenario, too), the corridor between Tallinn and St. Petersburg will bear the brunt. The Tallinn-Tartu corridor can be extended further South-East, to Russian border. Added also will be the Via-Hanseatic corridor, i.e. the connection between St Petersburg and Hamburg, which will run (at least in the case of one version) diagonally through Estonia. Via-Baltica, too, is important in case of those scenarios, however certainly less important than e.g. the Tallinn – St. Petersburg direction. Quite naturally, development of a given transport corridor will involve and affect the surrounding areas.

Speaking of the *ferryman* scenario, the negative aspect is, of course, the huge load on natural environment, because transit traffic has large big impact on nature, being concentrated around harbour border crossings. These are the problems that will have to be dealt with inside this scenario.

Speak of the *interface* scenario, our main idea is that on a long time-scale we will have to solve the problems of rural South Estonia. In case of the Gateway type development, in a relatively advantageous position are such traditional branches of economy in South-Estonia, like industry, however the development of those branches will clearly not be sufficient.

Maybe we shall try to boost the agriculture, and food processing. The idea is to create a country with two intellectual centres, one in Tallinn and one in Tartu. In the latter, we enjoy long university traditions. If we create conditions for developing Tartu intellectual potential, maybe the Southern part of Estonia will be advantaged by the working and living environment of Tartu, not only for agricultural purposes, but also in the future, for specialists within information technology.

There are of course a lot of other unsolved questions concerning Estonia, especially the one concerning energy. At the moment we have two large power facilities near the city of Narva; they will continue to produce at least the next ten years. Due to the fact that they are quite out of date, as far as the technology goes, their impact on our national environment is adverse.

Within each scenario the location of energy producing capacities and energy-networks will be different. If you have a low growth rate, then you do not have the finances to reconstruct the energy sector, converting it from oil-shale based production, at the moment our main source of energy, to some other kind of energy, for example natural gas. Hence we will somehow have continue to use these old power facilities. It is also a question of foreign capital: if you do not have an economic growth perspective, then you do not want to buy power facilities or start building new power plants.

Updating of the economic structure will be accompanied with better chances for de-concentration of power engineering in Estonia.

To sum up, the idea is to try to take the *grand slam* scenario, as a basis for working out the national spatial planning guidelines. But we must make this plan as flexible as possible, because our development does not only depend on Estonia, but also on very important external factors, that might influence the situation. It is important to create flexible strategies for our infrastructural and settlement systems development, what would not “eliminate” the chance to achieve the best development scenario, the best trajectory of development, however enabling us to cope, should we be forced to develop along a less attractive and less ambitious path of development.

“THE KEY” COMPOSITION OF THE SCENARIOS

GEO-ECONOMICAL DIMENSION

FOLLOWING THE
DEVELOPMENTBASED
ON INFORMATION
TECHNOLOGY

1. Type of GEI:
GATEWAY

2. Type of GEI:
CORDON SANITARE

1. As one of the
leaders in the
development of IT
and information
society: LEADER

2. Following the
development of IT,
laissez faire:
FOLLOWER

<p>A GREAT SLAM (Interface) Dominant; innovative</p>	<p>B MILITARY INFO- OASIS Dominant; military</p>
<p>C FERRYMAN Dominant; service</p>	<p>D FINNISH PERIPHERY Dominant; social</p>

Session III: The Baltic Sea Region in discursive perspective

8. The foundations of regions: Lessons from Europe and Norden

By Lene Hansen, Denmark

I would like to go a couple of steps back to some of the things we discussed in the first session, that is the assumptions which are being made around the constitutions of regions. This involves a discussion of what is necessary for a region to come into play, and in addressing this question I will draw on a comparison with the European and the Nordic integration experiences.

A region, first of all, has to have something which gives it coherence. In the case of the Baltic region I think one can identify two different logics as to what provides the regional foundation. The first logic argues that a region has to be seen as having an identity of its own. This identity seems to naturally unite the region and provides it with certain characteristics and potentially also with a common project. The Nordic region is an example of such a regionality; we find here the idea that there is a Nordic identity underpinning the region itself. The second logic holds that regions are constituted by rational or functional dynamics, in other words, that economic efficiency or political requirements converge around the region, making it a logical place for economic processes to play themselves out.

The first example of a region-building experience, the identity based regionality, was referred to by Pertti Joenniemi who talked about the constructivist project implicated in the building of the Baltic Sea region. The second logic of regionality, the one which points at functional and economic efficiency was introduced and discussed by Karin Peschel.

It is possible to distinguish at least in the abstract between those two kinds of foundational logic. In practise, however, these two logics are often intertwined, e.g. a region is being seen as justified by both an element of natural identity and by functional possibilities. One might start out with a region that is formed on a basis of common identity. It is then presumed that this region has to have some more concrete economic or political consequences and potentials. Or the other way around: that functional possibilities will lead to the formation of a common identity.

Probably one of the best places to look at the way in which these two sets of assumptions are being connected to each other is in the literature on European integration. We find here a recent debate on the relationship between the identity requirement of Western Europe or "Europe" and the potentials and limitations of functional integration. The case has been made that European integration cannot survive without the development of a stronger identity. The European integration project has in other words reached the limits of a non-identity based

politics. The functional justifications for European integration are no longer enough in order to sustain its popularity as a political project.

One can compare this debate to the one on the Baltic Sea region. In this case the problematique is a different one. It is not, as in the case of European integration, that functional integration has reached its limits, that functional integration has been (at least) partially successful, but now needs to be supplemented by a sense of common identity. Rather the argument is that in order to get functional economic integration *started*, you need to boost the cultural and political identity of the region.

When we turn to Norden, we find that the role of identity is very important. Norden presents itself in terms which are opposite of those of the European case. The strength of “Norden” is the existence of an overarching cultural identity. Furthermore, this is an identity each of the national members can attach themselves to while simultaneously adhering to their national identity. One can be Nordic and Danish at the same time because the two identities in this particular constellation reinforce each other. The “Nordic” is the same as oneself, just at a higher level.

Comparing Europe and Norden one finds two different understandings of the characteristics and problems of regionality. In the case of Europe the argument is that you have had functional integration and you now need a stronger sense of identity to address problems of legitimacy. In the case of Norden one has, as a contrast, a much stronger sense of cultural identity although this has not manifested itself in more concrete economic projects.

In the case of the construction of the Baltic Sea Region the identity component has been very important. The success of the region can in large parts be attributed to the fact that some people in the early 1990’s decided that this project *should* be successful. We are gathered here today, because these people put this project on the table.

Ole Wæver, one of the key analysts of the Baltic Sea Region, argued in a recent article that the first phase of building the Baltic Sea region is now by and large finished. The first stage was comprised mainly by cultural identity building with the aim of establishing the Baltic Sea region as a space one would think of as a natural region. More concretely, this would make it natural for example to invest in another Baltic country or for universities to make co-operation agreements.

As Bjarne Lindström pointed out in his presentation, the Western and Eastern spheres relate to each other but they are not identical. While the Baltic region has thus become successfully established as a “real existing region” it is not one which is characterised by the (claims to) homogeneity of the European and Nordic regions. The Western sphere of the Baltic is characterised by a post-sovereign organisation of the political space and it is moving towards a post-

modern logic. In the Eastern part of the Baltic sphere you find on the other hand traditional models of politics.

This difference between the two sides of the Baltic sphere is often presented as a problem and a barrier to the development of a stronger cultural identity. The intra-Baltic division blocks in other words the development of a more mature region. From this perspective it is assumed that identity refers to commonality, that the development of a stronger sense of identity is dependent on the two different parts of the region growing towards each other (or, more often, that the Eastern part will come to resemble the Western one).

But rather than seeing the differences between the two spheres as a problem from a cultural and political point of view, I think that it has been the strength of the region-building experience. The argument is here that the Western and the Eastern parts of the Baltic Sea admire and attach themselves to different things rather than to a notion of sameness.

Let us look very briefly at the Danish case. I would argue that the Baltic Sea region provided Denmark with the possibility of adapting to the new structures of identity which emerged after the end of the cold war. Pertti Joenniemi argued in an important article from 1990 that the end of the cold war threw Norden into an identity confusion. With the East falling apart one could no longer see oneself as being above the East-West confrontation; but probably even worse than that: it did not even look as if Norden had made a significant contribution to the end of the cold war. There was thus no space for the Nordic countries to construct themselves as carriers of any heroic practice. For Denmark, being a key force in the shaping and constructing of the Baltic Sea Region provided a link to the transformation process going on in Eastern Europe.

The Baltic Sea region provided Denmark with a mission through which a new identity that suited the new geo-political and symbolic terrain could be created. By being part of the Baltic region one became a part of the transformation process. It also provided Denmark with a foreign policy that suited Denmark's tradition for anti-power politics.

If we compare the Baltic Sea Region to the identity set-up of the Nordic and the European regions we find that in contrast to the latter two the identity of the Baltic Sea region has so far been constituted by a mixture of identity and difference. But rather than this being a problem, it is in fact the region's constitutive core.

If one reads the dynamics of the Baltic Sea region in this light, the identification of the problems of the future might look slightly different. Often, the main problem identified is the dangers of excessive nationalism in the Eastern part of the region. While this is certainly important, the prospect of complete similarity between the two regions would constitute an equally difficult situation in terms of the Baltic Sea Region. Parts of the attraction of the Baltic Sea Region right now seen from the Western perspective is the difference that it provides.

Judging from the discussion today, we do not have to be particularly worried about a uniform Baltic Sea region appearing any time soon. However, it is still important to look at the different types of region-building and identity dynamics in order better to understand what brings a particular region together.

9. Modernization in Eastern Europe, and post-modern restructuring in the West: Looking for compatibility

By Lech W. Zacher, Poland

9.1 Introduction

The main thesis of this papers is that there is a *significant* difference between the Eastern and Western countries within the Baltic Sea Rim. This is evident and banal, however - very important for research and practice of cooperation. These differences if properly investigated can be - probably to some extent - more compatible, i. e. easier (intellectually, politically, economically etc.) for understanding. Such knowledge may be, in turn, used to develop multifaceted cooperation advantageous for the Baltic Rim. This *intra-European* cooperation seems now more crucial than ever since the financial and economic crisis (in Japan, Asian „tigers”, Russia and its vicinity) is widespreading and destructing a big part of the world economy. May this part of Europe be a pole of growth or, at least, an area of economic and political stabilization.

9.2 Looking for new paradigms and approaches

In recent years (and in the past as well) there were many studies done on Europe and on this part of Europe in particular. There were often historic, geographic, regional, comparative etc. Beyond doubts such types of investigations are insightful. But nowadays when we look at Europe and the world from the point of view of *integration, regionalization and globalization* we have to use another paradigm. At the edge of the next millennium *future orientation* seems to be very essential in this turbulent world. Scientists (also politicians and public) have a difficult task to cross disciplinary borders and to orient themselves more toward an interdisciplinary (also multi- and transdisciplinary) thinking. The thinking should also be more holistic. This means that the point of reference ought to be not only particular, regional, local, but it should concern bigger systems (in our case - the whole Europe, the world). So *think globally, act locally*; and *vice versa*

And one more recommendation: Having taken for granted that there are some significant self-regulations in a free-market type economy⁵, dominating nowadays, it seems more than ever

5 The self-regulation is a problem, because free-market nowadays is *de facto* not so free - there are: state interventions (not only within public sector but also in R+D, export, import, employment, military sector etc.); significant financial speculations (on stock exchanges) evoking also a psychological panic with economic and political consequences; tendency toward monopolization of production and market (fusions of giant corporations, and not only; the case of Microsoft). States act also internationally (treaties, agreements, economic and military groupings) and globally (e.g. G-5, G-7 fixing economic parameters); international or-

important to consider institutional, political, social issues (as aspects, dimensions, impacts, forces of change and transformation, also obstacles and barriers, costs as well). Needless to add is the proper time-horizon of this kind of thinking: it is at least a medium one, and a long-term as well. However a long time ago Lord Keynes said that „in the long run we are all dead”, but this saying can be supplemented by the present futurists who argue that - probably - new generations will be born, matured, survived. Consideration of *not-yet born generations* is not only a question of human ethics, but it is an issue of research and development (R+D), advance and transfer of technology (especially high tech)⁶, policy toward integration (e.g. the EU), long-term strategies of multinational corporations (TNCs), strategies of international financial institutions (like IMF or the World Bank, IBRD), and last but not least policies of governments of nation-states (which are quite strong and vivid, not disappearing like the globalists trumpeted a pretty long time ago). So forecasting, properly conducted, is a plausible and useful cognitive and practical instrument for decision-makers of all types (in politics, on international arena, in business, in education, research, trade, in human life as a whole)⁷. The list of issues is by no means finished. There are some more of them: global climate change, environmental protection, biotechnological and technological promises and risks (that is why U. Beck coined the term “risk society”; less discussion is conducted now on so called “bio-society”), building or constructing information society (mentioned as the goal for the EU - see Bangemann’s Report of 1994), networking the world (Internet and other info-superhighways), security and peace, disarmament and conversion, high population growth, growing migration from poor to rich countries and regions, over-urbanization, crime, narco-terrorism, international shadow economy and so forth. And even more: like “clashes of civilization” (to recall Huntington), McDonaldization (to recall Ritzer), conflicts between “Jihad vs. McWorld” (to quote Barber), also issues of local and global underclass and social exclusion. So, *mapping of the future*⁸ (or rather futures) seems to be now extremely complex and difficult. However, *caring for the future*⁹ is even more tough and troublesome, not to mention *investing in the future*¹⁰. So to conclude: many problems and issues have to be explored in a new way or even re-invented. Considering all what was suggested above we come to rather *different* - than traditionally before - *agenda, vision, image* of countries, societies and the world. This is not

ganizations and institutions (IMF, World Bank, OPEC), and last but not least - transnational corporations planning and functioning globally. So market today is highly institutionalized, politicized, regulated (by laws and policies) - really very far from the model of perfect competition. Even bazaars are controlled - by gangs and mafias.

6 See e.g. Zacher (1997); also Chen (1997).

7 See e.g. Coates et al., 1997, and Wacker et al., 1997. The former book is about „long-term future of business”, it is the book of „business prophecies the prophets of business live by”.

8 Slaughter, 1996.

9 The term “caring for” was used in the Report of the Independent Commission on Population and Quality of Life, under-titled: Caring for the future - A radical agenda for positive change. Oxford 1996.

10 This term is used for example by French, 1998. Needless to add here that the concept of sustainable development becomes an important contribution to discussion of our futures, it is also somewhat implemented into practice.

only a *new intellectual order* (or paradigm) but also a new order of things and processes - being re-configured and more chaotic¹¹. *Conditio humana* becomes *postmodern condition* (to recall J.-F. Lyotard).

9.3 Identifying challenges and obstacles

So giving up deliberately the deep history of the region discussed we may - for the reason of research agenda building - underline above all *challenges* of the Baltic Rim countries at the turn of the century and at the end of the second millennium. The prompt observation is obvious: they are quite *different*. So the „generalized” image of the region should be deconstructed. In the European framework there are, besides rather similar Western countries, rather different from them - the post-Communist Eastern European countries (they are differentiated also in between more than the Western countries). So the justified approach would consist of emphasising their *differentia specifica* between the two groups and within them as well. One may say, almost *a priori*, that these different challenges are due to, generally speaking, different *phases*¹² in civilizational development (i.e. educational, technological, economic, social, cultural etc. levels and standards). So the point is that it is appropriate to call the challenges of the Eastern Europe - modernization challenges, and in the case of the Western Europe - postmodern challenges. It is a naive image that the Eastern part of Europe was historically (especially since the industrial revolution) modernized - thoroughly and deeply (forget peripheries for the time being). For a (not total, not deep) description of this kind of modernization I have introduced a new term - *shallow modernization*¹³. These countries still have to strive for an *advanced* modernization while the latter ones are in the phase of postmodern restructuring¹⁴. We do not think that the Eastern and the Western parts of Europe are separate worlds, however they face different challenges which form certain significant incompatibility. It should not be neglected, especially if building of the new European sub-region is at stake.

11 See Laszlo, 1994, also Anderla et al., 1997, and May, 1996. So *chaos factor* should be taken into consideration, however it does not mean a total anarchy or impotence in human activity. Some say that we have to be more *pro-active* and *manage properly* our *strategic resources* (at present it is information technology - see Willcocks et. al., 1997). For some authors the key resources are *technology* - see Rip et al., 1995 - or *knowledge* - see e.g. Davenport and Prusak, 1998. Anyway the often predicted vision of the future society is called *knowledge society*.

12 Or stages - to recall W. W. Rostow's theory. However, we think about stages more structurally (like in S. Kuznets' studies), more in connection with technological progress (see H. B. Chenery's works) - see Zacher, 1981.

13 This theoretical term (see Zacher, 1998) has a pretty big *explaining power* in identifying areas and even causes of shallow modernization. Not developing this concept here, we may state that many present developmental problems are implied by the shallow modernization processes (of all kinds) ongoing in the past (also recent past).

14 The term “postmodern” we use here not in a strictly philosophical sense, but more colloquially as a vague synonym of the present turmoil, uncertainty and turbulence, chaos etc. in our world and its societies.

9.4 Differences as factors of growth and cooperation

Among differences which are important there are *size* and *potential*. Size can be expressed in physical measures (the extreme examples: Russia-Latvia, Germany-Norway etc.). Potential can be referred to span and level of higher education, R&D, existing technical infrastructure, high tech sector and standard of living, even quality of environment, also institutions and networks, and so forth.

Territory, population are more physical measures, on other side they decide on span of infrastructure and on size of market. Big countries have big problems and big gains as well. Moreover some big countries like Germany and Russia have higher, not to say, global ambitions and influence. So their interests (economic, political, strategic) are not the same as in the case of smaller countries (some time ago so called „small economies” were fashionable topic of academic investigations, now it is substituted by „integration”, „regionalization”, „globalization”). So in case of big and influential countries there is no „natural” propensity to regional cooperation. Thus it would be better in practice to expect development of cooperative links around the coast line, in other words - geographic proximity is still important. Moreover even such limited *cooperative rim* depends in the case of „big actors” on clearly articulated political will. So, cooperation is no *automatic* whatsoever. It implies more effort on local level, on specified issues. So, *local* and *mezzo level* has in fact more significance than all-national level. Possible recommendations will be connected then with stimulation of contacts, information flows and communications, joint ventures, exchanges, trade, research links and finally “people to people” encounters.

9.5 Changing Europe - updating stereotypes and problems

Another interesting question is: *who are we now* in Europe (especially in the past discussed)? Often our attitudes and images are highly stereotyped - because of history, of conflicts and wars, because of traumatic experience of fascism and communism. The recent fall of communism was traumatic as well. So this is a call for renewing our self-identity under present, not historical conditions. These new conditions are also connected with the development of democracy and freedom, tolerance. However there are problems as well e.g. unemployment, poverty, migration (not only legal), minorities, shadow economy, corruption, nationalism, religious fundamentalism. Some extensive investigations are desirable if the present state of *values*, *attitudes* and *behaviour* are to be updated and re-assessed. Evoking issues are not the same whatsoever for all countries in mind (e.g. Russia has big problems, however is marginally - to its size - Baltic rim „shareholder”). So a new description of ourselves is badly needed: comparative, based on empirical data, possibly presented in more operational terms. One warning seems here necessary: equally important as „hard data” are aspirations, ambitions, convictions, prejudices etc. Moreover, scientists tend to look at social reality through their own „intellectual spectacles”. During scientific conferences and seminars we are more or less the same type of fellows. Our societies are more diversified and problem-producing than we want

to admit. Sub-regional *universal society*¹⁵ seems rather unlikely in a near future.

9.6 Hard times of transformation

Our regional assets are also differentiated. Not only natural resources, but also human capital (e.g. there is in Poland less than 7 percent of people with university education). The educational, scientific and technological level in the Eastern Europe is not enough high. Transforming themselves countries are still in crisis (Russia) or in post-crisis phase (like Poland). Factors of growth are connected not with technology and innovation (in Poland only 0,47% of GNP is given by the state to R+D, another 0,25% - by non-governmental organizations, this is more than three times less than in EU; also high tech sector is small and weak) but with gains from privatization (this is structural change but not from the point of view of property structure), from inner deficit and external deficit (old debts mounted to 40 billion dollars, deficit in foreign trade to 17.5 billion dollars), from „shadow economy”. The Polish politicians do not believe in science and technology as driving force of the economy, they look for a rather *short-term equilibrium*. They are not future-oriented. Just only in 1998 they tried to answer somehow to the Bangemann Report on information society in Europe (it was imposed by Brussels). Moreover the whole society is rather historically oriented. The former role of *intelligentsia* has declined because of its pauperization and a new leading figure - businessman. New private business schools (of more or less university level - there is more than 110 already in Poland) ensure rather skills than knowledge. This can be helpful for entrepreneurship. But who will produce innovation? Young people are less intellectually oriented, they are money-oriented. So who will write and read books or go to the theatres or concerts? Some basic values may be endangered. Primitive society may have troubles to cooperate with others.

Revival of some religious fundamentalism (e.g. Auschwitz religious conflict), anti-feministic attitudes, chauvinism, even intolerance and hatred, lack of social responsibility of not experienced „political class”, weak environmental attitudes, weak business ethics or the difficult and complex stating point to develop *democratic processes*. Of course, there are many historic, economic etc. justifications of such situation (much worse is the case of Russia). However dynamics of growth is good, turbulences may and will happen (sensitivity of all self-transforming economies is definitely high). This even more should encourage and prompt to sub-regional cooperation all potential partners. It is a *must* for *stabilization* (economic, military, social etc.), it is as well important for the future. A pole of stability, partnership and cooperation can be established for mutual advantage, for regional and global advantage.

15 It seems that the universalistic ideas (*homo universus*, *homo universalis*) are easier to postulate in the global context, on world level, far a distant future, than on sub-regional level *hic et nunc* where „bad details” are seen. However, the International Society for Universalism tries to diffuse internationally its humanistic message (see Kuczynski, 1992 and 1994).

9.7 Common regional future - some possible advantages

The *incompatibilities* can possibly be overcome. The Baltic rim is not only a geographic notion or a political notion, it should be as well economic, security, technological, educational, cultural, human etc. So not solely an aid is needed for weaker countries in the sub-region (e.g. in form of eco-conversion), but common environmental concern and joint-ventures in this field, building and linking infrastructure, networking, technology transfer, trade, scientific, technological and industrial cooperation. Moreover, good examples and viable patterns can be transferred, experience in social policy, migration, environmental protection can be adopted, natural resources, energy can be better exploited, security maintained, production complementarity developed, market significantly enlarged (Poland has nearly 39 million inhabitants). Also political and social exchanges are essential, they have to promote widespread democracy.

Two political advantages are to gain: to prevent the EU be a „fortress” and to make it possible to form a kind of „bridge” to Russia. Analogous *driving forces* of development will help to determine common future of the sub-region and vicinity. Standard of living and quality of life may improve. Flows of goods, capital and people will contribute to proper restructuring and levelling out standards of development. Building common *innovation potential* seems to be crucial.

Reality is not fully a social construct, it is shaped by some blind forces (like market), by chaotic events. Although some deliberate plans and activity can be performed. Building *common regional future* implies constructing *common vision* and conducting *common policies*; besides multicultural efforts to promote positive values for cooperation, development, peace. Variety of the past experience, for example, economic, social, technological may be a positive factor too.

It would be rather disastrous if some countries of the sub-region (like Poland, Russia, Lithuania, Latvia, Estonia) become marginalized, isolated, peripheralized. Costs of tensions and conflicts could be immense (militarization, loss of comparative advantages from ~~portation~~).

9.8 Instead of conclusions - some more research and real problems

A vast range of exciting research problems arises. For example, what will be the common future of the sub-region? Key words here are: modernity vs. postmodernity, sustainable development, information civilization, knowledge society, post-capitalism, post-market economy. Experiences in ideology and politics are extremely diversified: welfare state, social market economy, „wild” liberal capitalism, post-communist state capitalism. In context of integration some countries express the preference for the „Europe of motherlands” (de Gaulle’s idea), some feeling „post-sovereign” prefer supranational solutions. In global context the role of transnational corporations should be considered, also the vision of global information society. From the point of view of development, work, management there is a controversy - which

values are the best - European, American, Asian?

One can investigate all these problems and issues in a interdisciplinary and comparative way, using simulation models, structural modelling, writing future scenarios.

For a few decades a good conjuncture dominated in the advanced countries, some other (NICs, „tigers“, post-communist ones) experienced also some development, however somewhat fragile and costly. One day a crises may occur somewhere - it is better to be intellectually prepared and to make politicians, business people, media aware of possible risks and dangers. Of course, the most important timely task is to build institutions, networks, links, relationship etc. in practice in all dimensions and fields. All these may help in bad situations, may multiply our chance in good ones.

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Session IV: The role of networking and institutions for integration

10. Integration, flows, and networking in the Baltic Sea Region during fast economic transformation - the case of Sweden¹⁶

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Abstract: The point of departure for this paper is the fast and radical economic and social transformation of the formerly centrally planned economies around the Baltic Sea. The collapse of the Soviet Bloc resulted in a completely new situation according to integration and cooperation around the Baltic Sea. One of the results of the breakdown was that the Baltic Sea Region became a more integrated economic area where the involved countries were on quite different economic stages. This paper discusses the prerequisites for and the outcome of networking between regions and nations at different economic stages. This discussion is - in this paper - carried out at the background of urban networking between four cities in Sweden, of various size and differing economic structure, and cities in the transition countries in the Baltic Sea Region. These specific cases are, however, not explicitly discussed in the paper. Instead, the focus is on more principal questions about networking at differing economic and institutional stages. These time-lags in economic as well as institutional development between the post-industrial welfare societies on one side and transition societies on the other result in one-way flows and unilateral cooperation between the involved actors.

10.1 Introduction - a short historical exposé

In the year of 1989, the iron curtain fell and a great transformation took off in Eastern and Central Europe. Formally independent countries in Eastern and Central Europe began to be independent even in a real way - both economically and politically. Old countries within the Soviet Union - e.g. Estonia, Latvia, and Lithuania - began also soon to act in order to free themselves and once again be independent and self-governed nations. After a lot of political problems, the Lithuanian parliament declared Lithuania as a new state in March 1990. The two other Baltic States followed soon Lithuania's example and became independent and self-governed nations after fifty years as republics in the Soviet Union. After some time the Soviet Union collapsed and the former Soviet Bloc was just history.

16 This paper is based on the Swedish part of a research cooperation project between Finnish, Danish, and Swedish researchers, *Urban networking as a Learning Process in the Baltic Sea Region*. I am indebted to the project members for valuable comments: Perttu Vartiainen - who is head of the project - Janne Antikainen, Bo Forsström, Sari Söderlund, John Jörgensen, and Kent Eliasson. The project has been supported financially by NordREFO and NOS-S. Earlier version of this paper has been presented at the 37th WRSA annual meeting in Monterey, February 1998, and at the Urban Networking-seminar in Tartu, March 1998. The version presented in Tartu will be published in Groth, N. B. (ed.): "Urban Systems and Urban Networking in the Baltic Sea Region", Committee for Spatial Development in the Baltic Sea Region, Gdansk, 1998.

These are well-known facts and a new situation in the Baltic Sea Region (BSR) emerged. Or was the new situation really new? The answer is of course both yes and no. No, if we go a long way back in history and yes if we focus on the new situation with regard to the changed conditions - both economically and politically - that the break down of the Soviet Bloc resulted in with regard to the actual as well as the potential and future development in the Baltic Sea Region.

For a long time ago - during the heydays of the Hanseatic League - the Baltic Sea was one of the dominating trading areas in the world. The dominance of the Hanseatic League resulted also in a German expansion eastwards - Danzig, Königsberg, Memel, Riga, Reval, and Dorpat are cities which were more or less governed by the Germans. In Sweden, Stockholm, Kalmar, and Visby are examples of cities, which in many aspects were dominated by the Hanseatic League.

The power of the Hanseatic League eroded, but the Baltic Sea still upheld its position as one of the leading trading areas. During the 17th century, the Baltic Sea was more or less a Swedish inland sea as a consequence of the Swedish eastern and southern expansion. In the middle of the century, about 40 percent of Stockholm's import emanated from the Baltic Sea area (Andersson and Sylwan, 1997). This was, however, before the industrial revolution in Great Britain, which abruptly changed the world with Great Britain as the dominating economic power. Consequently, the Baltic Sea Region lost its place on the ranking list of the economically active and expansive areas in the world. In many places, this transformation of the world economy resulted in an establishment and a reinforcement of the BSR's position as a hinterland. The contrast between an advanced West and a backward East was accentuated.

The Russian revolution excluded the Soviet Union from the world economy and after World War II the same is valid for most of the countries in Central and Eastern Europe, including the Baltic States which became a part of the Soviet Union during the Second World War. The result was not only an interruption of the former economic connections westwards, but even a new division of the economic activities as a consequence of the socialist labour division between countries and regions. The planning economy and the changed labour division, based on the idea of scale economies, resulted in a hierarchical organization of production, where the centre-periphery relations not only were accentuated, but even seem to be an economic wishful solution. This resulted in a situation where regions and countries were characterized by skewed economic structures. The manufacturing industry was dominated by heavy raw-material based branches such as coal, steel and heavy metal industries. As a consequence of this, the light industry and the service sector were under-dimensioned and there was and still is a mismatch on the product market in the transition countries - a mismatch which also has been a great political problem as a result of these old obsolete factories' importance for the employment. A close-down of these ineffective factories have been and still are, of course, economically motivated but socially and politically dangerous.

The economic development in the transition countries in the BSR during the first part of the 90s indicates also that these countries had gone through a great transformation. GDP per capita decreased tremendously during the year 1990-1993. The same is valid for the unemployment rate and the labour force participation - the labour force decreased as a result of the close-downs and the rise in unemployment. The discouraged worker effect seems to be valid in this case - people left the labour force as a consequence of the shortage of jobs. These ousters seem to be especially frequent among female workers.

The inflation was also tremendous and was another great problem in the transition countries' attempts to establish economic relations with other countries. The same is valid with regard to the absence of formal and legal capitalistic institutions and banking systems as the Western ones.

This economic, political, and social turbulence can also be interpreted in a positive way as it is a sign of a very fast transformation and introduction of new economic state of things. In the middle of the 90s, the most obvious problems seem also to be solved. The inflation was almost under control, the GDP per capita was rising, and even the unemployment seems to be have fallen. In the best case, we can perhaps use Schumpeter's old phrase "creative destruction" in the case of the transformation process in transition countries in the Baltic Sea Region.

The Soviet Bloc parenthesis is thus only a parenthesis with regard to the time dimension. According to the prerequisites for economic transformation and development, the fifty years between World War II and the dissolution of the Soviet Bloc have had tremendous effects on the possibilities to transform and develop. This will, however, not necessarily result in stagnation or dependency in the long run, even if there are - at least in the short and medium term - a lot of hindrances with regard to a transformation and development according to Western lines.

These hindrances and possibilities will be discussed in the following passages. At first, however, the transition economies in the Baltic Sea Region will be put in a Nordic European economic context.

10.2 The transition countries in a Baltic Sea Region context

10.2.1 Time-lags in Economic Development

Today, the BSR is, thus, one of many economic regions in the new Europe. It is also a well-known fact that there is a considerable gap between the standard of living in the Western European and the Nordic countries on the one side and the living standard in the transition economies in the BSR on the other side. Exact comparisons are not possible due to deficiencies in statistics. Poland seems, however, to exhibit the smallest gap, while the largest is repre-

sented by Lithuania measured in GDP per capita (see table 1). Measured in purchasing power parities (PPP) the picture will be somewhat different with regard to the ranking between the Baltic States - in 1994 Lithuania has highest GDP per capita at PPP and Latvia the lowest (SIEEE, 1997). The estimations in table 1 must, however, be handled with utmost care because of inflation in the different countries and problems with the exchange rates. This phenomenon seems to be especially pronounced in the Russian estimations.

Even between urban regions in the transition countries there exist large differences in living standards and economic structure, even if these differences are not as large as between the transition countries and Germany or the Nordic countries. For Sweden, for example, the differences in living standards between urban and rural areas are almost negligible.

There are, indeed, large contrasts between the different economies around the Baltic Sea other than the gap in wages and living standard. Sweden, e.g., is today firmly planted in the post-industrial society, with a majority of its population employed in the service sector. The transition countries in the Baltic Sea Region are, however, still in a transformation phase from a pre-industrial to an industrial society. Statistical comparisons between Western market economies and the ex-socialistic planned economies are, however, very hard to make. Such comparisons must be interpreted with the utmost care, and even then be seen only as indications of differences or similarities. However, it stands without question that the majority of the economically active population in the transition countries in the Baltic Sea Region is employed within the goods-producing sector. Between 50 and 60 percent were employed within the goods-producing sector at the time when the soviet block collapsed, and primary production is still of great importance to the economy and employment (see table 2). This also indicates that there is a labour surplus in these economies which can be employed in standardised production.

Accounting for these reservations, it can be seen that the largest differences between Germany and the Nordic countries on the one side and the transition economies in the Baltic Sea Region on the other are the great importance of the goods-producing sectors in the latter countries and the relative unimportance of the private service sector there. The transition countries in the Baltic Sea Region are still agrarian in many respects as measured by Western European and Nordic standards. Despite the large share within industry and construction, agricultural labour surpluses have failed to be absorbed in these sectors to the extent that they have in other countries with comparable sized industry and construction sectors. The transition from agrarian to industrial society is, however, almost complete. The road to the post-industrial society which exists in Sweden is, on the other hand, quite long, and the transfer of labour from the agricultural sector will not have the industrial sector as destination in the same manner as the Western and Nordic countries in the 50s and 60s. Instead it is more likely that the transfer of agricultural surplus labour will result in urban self-employment in the lower segments of the private service sector such as that which has occurred in the developing countries.

The increasing importance of the service sector between 1990 and 1993 in most of the transition countries is mainly an effect of the structural transformation with sweeping close-downs in the manufacturing sector as one result. The employment decrease resulted in a proportionally larger decrease in the secondary sector compared to the decrease in the tertiary sector. In Latvia, Lithuania, and Poland employment increased even in the tertiary sector despite the loss of jobs in the economy as a whole (Central Statistical Office, Warsaw 1995). This implies that the service sector has expanded in these countries. In what extent this expansion is an effect of an increased demand for services or an effect of self-employment in the sector's lower segments of marginalised workers is, however, still shrouded in mystery. In any case, these sectoral changes are indications of a fast transformation of the centrally planned economies.

10.2.2 Employment and Unemployment

In the former centrally planned economies there was no official unemployment - in the beginning of the 90s the official unemployment rate was around zero. One of the effects of this system where jobs were guaranteed - even if there were no relevant jobs - was that it was not necessary to fire the excess workers. Instead, an under-utilising problem arose with low labour productivity as a result. This implies that it is very difficult to estimate the real unemployment rate in the former communist countries before the breakdown of the Soviet Bloc. However, it is still very difficult to estimate the real unemployment rate in the transition countries and unemployment comparisons between unemployment rates in these countries and the Western ones must be interpreted with outermost care. It was first in the middle of the 90s that labour force surveys according to ILO's recommendations were introduced. The result of this was usually that the unemployment rate was well above the registered unemployment - in some cases two times higher.

During the first half of the 90s, the unemployment rose very fast as a consequence of the transformation of the economies and the abandonment of the job guaranty. These two phenomena resulted in a rise in the unemployment rate that reached Western European levels. Furthermore, the regional variations in unemployment are - as in the Western European countries - high. The Polish ratio of highest/lowest unemployment between different regions seems to be 2. The Polish ratio is probably not representative for the transition countries in the Baltic Sea Region in this aspect - the regional variances seem to be smaller in Poland than in the other countries (ref.). This figure can be compared with the corresponding one in Latvia, where the regional disparities varied from 2 percent (Ventspils) to 28 percent (Rezekene).

The rise in unemployment affected different groups in a differing way. Groups which were particularly affected by the rise in unemployment were youths and elderly people, women, and low-skilled workers. High-skilled workers seem to be better off, but for some of the highly educated workers there is some risk to be unemployed as a consequence of the transition from a centrally planned economy to a market economy (Fassmann, 1997). In the latter case a low

risk of becoming unemployed is combined with a high risk to be long-term unemployed - their special qualifications are not demanded anymore in a capitalistic market society.

During the first years of the 90s, the employment decreased as a result of the close-downs and the rise in unemployment. In the Baltic States there were also a large population decrease, which had negative effects on employment. However, even the labour force, as been mentioned earlier, diminished as a consequence of the shortage of jobs. Especially, female workers seem to be badly affected and ousted from the labour force. The discouraged effect seems also to be valid in the case of older workers. Long-term unemployment in this category - especially among low-skilled older workers - results in many cases to an oust from the labour force at least in the official sense. Many of these will also go back to rural areas - the primary sector has in many countries increased their share of the employment during the first years of the transformation process, even if there has been none absolute employment increase in the sector. The exception is Lithuania, where the employment in agriculture increased by 14 percent between 1990 and 1993. The sector which had been most hardly hit is the manufacturing industry - including construction - where there has been a tremendous employment decrease both relatively and absolutely. Even if the statistical data should be handled with utmost care, it seems obvious that, especially, Estonia and Lithuania were affected very hard in this case, where the employment in the secondary sector dropped by 45 and 35 percent respectively.

10.2.3 Trading Patterns

An increased integration will, naturally, result in an expanding trade between the countries in the Baltic Sea Region. Already now, the trade between these countries is of great importance but there is still a lot of hindrances between the EU-countries on the one side and the transition countries on the other.

Germany is the most important country in Europe. This phenomenon has, of course, implications even for the trading pattern. With regard to the market economies in the Baltic Sea Region, Germany is the most important trading partner (at least according to the export). With the exception of Poland, this is, however, not the case with regard to the transition countries, where the heritage from the Soviet Union still is obvious. For example, 13 percent of both Sweden's and Finland's export in 1994 is destined to Germany. For Estonia and Latvia the corresponding figure is 7 percent and for Lithuania it was 11 percent (Fredriksson 1995). These differing figures according to the export to Germany seem perhaps not to be especially large. Instead, the differing trading patterns between the Nordic and the transition countries are most pronounced in the relations vis-à-vis the Western world on the one side and the former Soviet Bloc on the other. The Baltic States are still oriented towards the old Soviet Bloc with regard to the trading patterns. In 1994, 28 percent of Lithuania's and Latvia's export was destined to Russia and 22 percent of Estonia's. The corresponding figure for Finland was only 5 percent. There is, thus, a long way to go before we can talk about an integrated Baltic Sea

Region according to the trading patterns - both according to the various countries' export and import.

However, it is not only the trading patterns that differ according to the trading partner concentration or differentiation with the Nordic and the Western countries on the one side and the transition countries on the other. The same is valid with regard to the product mix in the import and export. With reference to the theory of comparative advantages, a country with a lot of capital exports capital-intensive products and imports labour-intensive ones. The same is valid if we take differences in the technological level the trading countries, including the human capital, in consideration. Countries with a high technological level export technology-intensive products and countries with a shortage of technological capacity import these products.

At first sight, we can suppose that in the trade between the Western and Eastern part of the Baltic Sea region will show the pattern of the theory of comparative advantages. The problem in this case is, however, that data about factor endowments are in many ways incomplete. Instead - to get a hint of differing countries' factor endowments - we are obliged to use some form of *ad hoc* explanation. The theory of revealed comparative advantages - which is more a method than a theory - follows a deduction like this: If there is some power in the theory of comparative advantages, the countries which export capital-intensive products have a lot of capital compared to the importing country and vice versa (Belassa, 1965; for the East-West trade, see e.g. Neven and Röller, 1991). The same reasoning is, of course, true with regard to the other factors too - including technology and educational level.

The product mix of the export from the transition countries in the Baltic Sea Region shows the presumed pattern - one-way trade alike trade between developed and developing countries. In the middle of the 90s, export of raw-material, textiles, and food products varies between 40 percent - which is Lithuania - and 74 percent - which is Russia (Fredriksson, 1995). However, in these figures, the trade between the former Soviet Bloc countries is not excluded. If so, the figures would, certainly, have had an even greater dominance of basic products in the export mix.

If we take a look at the Swedish export mix, we find the opposite pattern. Sweden is exporting products with a high value of capital and technology. As a consequence, we are importing raw-material and labour-intensive products. This phenomenon is - with reservation for the imperfect data - very pronounced in our trade with the transition countries around the Baltic Sea. As an example, the relation between export and import to Poland was 2.7 and to Russia 40 according to the trade with knowledge-intensive products. With regard to high-tech products the figures are almost the same even if the quotient in the Russian case is somewhat smaller (26.7). By the way, in the Polish case, where there are some data about the trade pattern in the middle of the 80s, the imbalance with regard to the knowledge-intensive part of the trade has obviously diminished - from 5.8 in 1985 to 2.7 in 1994 (SOU 1997:160). The trading pattern

between Sweden and the transition countries in the Baltic Sea Region has thus some similarities as the trade between industrialised and non-industrialised countries. Even if the products differ, this phenomenon was also obvious in the inter-war years (Andersson & Sylwan 1997). If this pattern will persist, depends in much on the transformation capacity in the transition economies. At least Poland seems to have changed its trading pattern in a more Western way, even if there is still a long way to go.

The increased economic integration in the Baltic Sea area will have some consequences for the Nordic countries - consequences which also will have regional implications. If we take a look at the Swedish case, raw-material and labour-intensive products would be over-represented in the import from the transition countries. At first sight, this will have a negative impact on Swedish regions where this kind of production is over-represented. However, there are some indications that the effects of increased trade will only marginally result in a sharpening of the transformation tensions in Sweden. Labour-intensive products and raw-material have, usually, not been excluded from the Swedish import - the import of labour-intensive products from low-wage countries has a long tradition in Sweden. Furthermore, the low-wage countries in the Baltic Sea Region are only low-wage countries in a European context - in a global context this is not the case.

This free trade tradition has, thus, resulted in an adjustment process among the labour-intensive branches and then also in the regions where these branches are over-represented. There are, however, still branches and regions where the increased Baltic trade will have negative effects. Some products and branches which are labour-intensive but not entirely dependent of low wages, e.g. the wood industry, will, however, probably be affected by an increased import. This will of course also have regional implications - e.g. the districts with a lot of small-scale industries in the South-eastern Sweden will, following of this reasoning, experience a more intensive competition - which already is existent - from e.g. the Baltic States. The result will be that at least the industrial expansion in these districts will slow-down or even result in a retardation.

10.2.4 Factor Endowments and Factor Mobility

After the discussion of the regional effects of an increased trade in the Baltic Sea Region, the differing factor endowments between the countries in the BSR and its effects on the mobility of labour and capital will be discussed (see also Johansson, 1997; Lundborg, 1998; Knokke, 1998).

The point of departure for the following reasoning is that there exist two regions at different stages of economic development. Region A - e.g. Sweden - is in transition from an industrial to a post-industrial society while region B - e.g. the Baltic States - is in transition from a centrally planned society dominated by an old industrial structure to some form of market economy.

There also exist varying "vintages" of both capital (K) and labour (L). Substitutability is limited - instead there exists complementarity between the different vintages of capital and labour. According to this there exist the following relations and interactions:

K_1 : capital with old technology

K_2 : capital with new technology.

L_1 : unskilled labour

L_2 : highly educated labour.

Between regions at same development stages, there are only small differences in factor endowments - differences which in much are effects of differences in natural resources. Between regions at differing development stages, there are, at least according to the theory of revealed comparative advantages, large differences in factor endowments. This results in the following inequalities with regard to factor endowments:

$$K_{2A} > K_{2B}$$

$$L_{2A} > L_{2B}$$

The different economic structures in the two regions have also led to wage gap:

$$W_{L1A} > W_{L1B}$$

$$W_{L2A} > W_{L2B}$$

However, there is not only the wage gap within the same categories. Instead the following wage relation is valid:

$$W_{L1A} > W_{L2B}$$

Capital intensity is also differing:

$$K_{2A}/L_{2A} > K_{2B}/L_{2B}$$

$$K_{1A}/L_{1A} > K_{1B}/L_{1B}$$

10.2.5 Implications for Capital Mobility

Different regions have differently composed capital and labour markets, which implies that the development possibilities are not equal regarding choices of technology available for adoption. Since there exists a mutual dependence between the labour force's competence structure and the introduction of new technology, a lack of competence is a restriction to innovative activities

and technology renewal. This relationship applies especially in old industrial regions or rural areas characterised by economic backwardness. In these regions, there is often a surplus of labour, but the "wrong" type of labour from the employer's point of view. A labour force such as this constitutes an obstacle to economic change as the technology which is suited to it tends to maintain the structure of the periphery or the backward regions, which develop an obsolete industrial structure based on old investment patterns, where the only location factor is cheap labour.

Even if capital moves to labour, this type of investment pattern is not post-industrial. Instead, it is a defensive investment pattern, which to a great extent characterises the early phases of the industrial society in some regions at the same time as it is a sign of the development of a post-industrial investment pattern in other regions - in regions where these types of investments are beginning to be history and standardised cheap labour is no longer a competitive advantage. Such technology may be socially desirable, but the risk exists that regional segmentation and polarisation are reinforced leading to knowledge-based production in the centre and standardised production in the periphery. This polarisation will thus be accentuated by a post-industrial investment pattern where highly-educated labour will increasingly be a location factor for mobile capital in the knowledge-based sectors.

On the other side, this investment pattern will stimulate the growth of the purchasing power in these countries with an expansion of the home market of both consumer and capital goods. Besides exporting cheap industrial goods these countries and regions are turning into a large market themselves.

According to the transition economies in Central Europe - Poland, Hungary, and the Czech Republic - signs of foreign penetration of the economies are very apparent. Foreign direct investment doubled between 1990 and 1995 in everything between finance, computers, consumer electronics, car assembly to retailing (Business Week, July 1 1996). The location factor here is cheap labour in standardised production - knowledge-intensive activities are still located in areas where highly educated labour and good infrastructure are the dominating location factors. This development will surely reach the Baltic States too, where the labour costs are still lower. However, the purchasing power are also lower in these countries, which will be a restriction on investment in more sophisticated goods production and direct investment towards more standardised labour-intensive production. The foreign direct investment has fluctuated a lot according to the speed and differences in the privatisation policy. This means that yearly foreign investment changes must be carefully interpreted.

Up to the middle of the 90s, Estonia has attracted the most foreign direct investment of the three Baltic states as a consequence of a positive investment climate. The comparatively positive investment climate in Estonia is a result of the development of the market economy in combination with a better confidence in their legal institutions. The largest part of foreign

direct investment in Estonia has occurred in the manufacturing industry and then in matured branches with regard to the product life cycle - e. g. food processing, textiles, and wood processing industries. According to the numbers of firms, the service sector has attracted more interest among the investors than the manufacturing industry. Sweden has been the largest investor in terms of volume and Finland has been participating in most firms (OECD, 1996b). This indicates that the Swedish interests are predominantly directed towards the manufacturing industry, while the Finnish are more directed towards the ~~service~~ sector.

The investment patterns in Latvia and Lithuania are quite different from that of Estonia and the other transition economies in Central Europe as foreign direct investment is concentrated to the service sector. In Latvia, 73 percent of the cumulative direct foreign investment in 1995 was directed towards trading activities and 21 percent towards banking and the foreign investment structure seems to be about the same in Lithuania, where the cumulative investment has been targeted to the service sector - hotels, restaurants, wholesale distribution, and retail trade. Investment in manufacturing has, however, increased since the middle of the nineties. However, the hampering factors in these countries are still the small domestic markets and the inconsistent supply of production factors and other inputs (OECD, 1996b).

Let's take the Swedish industrial location pattern as a case where there are location differences between various economic activities according to the qualification and wage levels of labour and the supply of raw material (SOU 1997:160, see also Eliasson and Johansson, 1994, for a statistical examination of the spatial division of production with regard to different labour and raw material related factors).

The Swedish *high-tech industry* (e.g. the *R & D intensive industry*) is primarily located in the capital region and in the university towns, with the share of university-educated labour being clearly over-represented in these areas both in the economy as a whole and the R & D intensive companies in particular. R & D activities within the other branches are also located in these regions.

In the case of the *resource processing industries* - metals and paper and pulp industries - the picture is somewhat different. The very nature of these industries makes them dependent upon proximity to supply and heavy investment in existing plant and equipment, and thus less able to move from Sweden. The resources processing industries are predominantly located in the old mining districts in the middle of Sweden (Bergslagen) and on the Norrland coast - areas which have had many problems during the past decades as a consequence of the structural transformation of the Swedish industry. These crisis areas are also characterised by large open and hidden unemployment.

Labour-intensive industries display a different location pattern than high-technology industries or the capital-intensive processing industry. As like the high-tech industries, access to a suit-

able labour force affects investment and location decisions for the labour intensive industries. The difference here is that, while high-tech companies are not very sensitive to wage differential, the labour intensive companies weigh wages quite heavily. These companies generally operate in saturated markets, and often find themselves in later phases of the product life cycle. Price is an important competitive tool, leading to production costs, and thus labour costs, playing a central role in investment decisions.

To summarise, the composition of the labour force affects the industrial and post-industrial location patterns in BSR. Post-industrial activities like knowledge-based industries are most frequent in regions with a high share of highly educated labour. Traditional labour-intensive industrial activities are concentrated in areas with low labour costs and a surplus of low educated labour. These differences in factor endowments and labour markets accentuate both regional segmentation and polarisation in the transition from an industrial to a post-industrial society.

Analogous to this reasoning, it can be expected that the transition countries should have a comparative advantage in the production of labour-intensive goods. Thus, in similar circumstances, this implies that Swedish capital active in the labour-intensive industries will begin to move into these regions. This also implies that the regions in Sweden which are relatively dependent upon these labour-intensive activities will face increasing difficulties. These tendencies are noticeable today, with increased investment in e.g. the Baltic States. As discussed above, this process will lead to an increased polarisation and dualisation between the countries surrounding the Baltic with respect to investment patterns and economic structure. The changed investment pattern will have larger effects on the employment in the labour-intensive Swedish regions than a harder trade competition in the Baltic Sea Region. The risk is, thus, that the Baltic States will be “locked in” to labour-intensive production, while the phasing out of these forms of production in Sweden will be accentuated. This process will not only affect industrial activities, but also standardised service production, which does not require direct contact with the customer. Even this service production will tend to relocate to regions with low labour costs where education is not a requirement.

On the other hand, the result according to the relation is an increase in both employment and purchasing power in the Baltic States. This will serve to promote their economic development, despite increasing specialisation in a labour-intensive direction and even result in economic renewal and transformation if labour begins to become scarce in these countries.

10.2.6 Implications for Labour Mobility

If there are some hindrances with regard to capital mobility, these are - at least today - much more obvious with regard to labour mobility. There is no common labour market around the Baltic Sea in which the transition economies are included and there is still a long way to go

before this point is reached. This implies, thus, that the following reasoning will be very hypothetical.

According to traditional push-pull theories, these economic disparities should, in a free labour market, give rise to high migration from the transition countries to the Western and Nordic countries, e.g. Sweden (see figure 1). This implies that labour surplus and low wages in the transition countries will be the determinant factors behind the migration decisions, but even the high wages in Sweden will give some hopes about the future, which will further stimulate the labour mobility process. In the middle of the 90s, official unemployment was lower in the transition countries than in Sweden (OECD, 1996a). This phenomenon does not, however, indicate that the labour surplus was - or is - larger in Sweden than in e.g. the Baltic states or Poland, which the labour force surveys also indicate. Hidden unemployment and marginalised workers in jobs with a high degree of self-sufficiency seem to be much higher in these countries than in Sweden.

If we take e.g. Sweden and the transition countries - e.g. the Baltic States - as a case, the economic structure in 1960 is - in some ways - comparable to that of the Baltic countries today if seen at the aggregated level. The problem which arises upon discussion is that there exists a time-lag of approximately 30 years regarding structural change - according to living standard the time-lag is much longer. There also exist large differences in labour force composition. A common labour market in the Baltic Sea Region would most likely have the character of labour migration within developing countries and between developed and developing countries. According to a traditional push-pull theory this would stimulate the migration from the Baltic States to Sweden (see e.g. Lundborg, 1998). According to the neo-classical theory this will also have effects on capital mobility, which depends on the return to the production factors. For simplicity's sake, in the following capital mobility has been excluded from the discussion on labour mobility across the borders.

However, according to the segmented labour market theories, this should result in those workers who are released in the continued structural transition of the Baltic states' economies not being in demand in either the private or the public sectors in Sweden. It seems that even if a supply of mobile labour should appear in the Baltic states, Swedish demand for it seems quite limited. This does not, however, imply that no migration from the Baltic countries to Sweden will occur - it only says that such a migration will not be in reply to a demand for the type of labour that the countries can offer (see figure 1).

The more far-reaching transformation of the Swedish economy in a post-industrial direction has thus reduced the demand for traditional blue-collar workers. Instead, there has been rapid employment growth in the service sectors - both private and public. Especially the private service sector has, in recent years, been associated with the transformation of the economy in a knowledge-intensive direction. One result of this transformation process is the looser connec-

tion between the business cycles and labour force migration from especially the Nordic countries during the second half of the 70s and 80s. During these years, immigration to Sweden has rather been a function of political events in other parts of the world and, since the beginning of the 70s, the majority of the immigrants have been refugees working in the lower segments of the private service sector where the educational level is very low.

The structural transformation of the Swedish economy, with a great increase in employment in the service sector, has also changed the picture with regard to employment opportunities for the immigrants. Instead of blue-collar work in the goods-producing sector, immigrants are nowadays predominantly employed in the lower segments of the service sector. As a consequence of the structural transformation of the Swedish economy, the push factors are now stronger than the pull factors for immigrants. This has also resulted in a changed employment structure, with a large share of the immigrants working in jobs refused by the Swedish labour force.

To sum up the effects of the structural transformation in Sweden on labour mobility, it is obvious that there was still room and demand for blue-collar immigrants up to the last part of the 60s. After that the bad times in Sweden, with de-industrialisation and structural transformation, hampered blue collar immigration. There was no longer any demand for that type of labour (see e.g. Ekberg 1993; Lundh and Ohlsson 1994a, 1994b).

A common labour market surrounding the Baltic would most likely have the character of migration in developing countries or between countries with great income differences and not that of the common labour market between the Nordic countries or within the European Union today. Present and future labour market segmentation will result in those migrants from the Baltic countries ending up in the lower segments of the private service sector - i.e. cleaning, dish-washing etc. The educational level in these segments is low, turnover high, unionisation low, and risk of unemployment high. This situation would mean that Baltic migrants would compete with yesterday's Southern European and today's non-European migrants if a common Baltic labour market were created in the near future. This phenomenon has resulted in an ethnic segmentation in the sense that even if the immigrants have a high education, the jobs even for this category are in the lower segment of the private service sector.

The economic transformation in the transition countries will not only have implications on the international migration - even the internal migration will be affected. When the unemployment increase and the regional unemployment levels and living standard diverge, the internal migration pattern will be changed in a way more alike the migration pattern in development countries. This will result in an out-migration from rural areas to larger towns and metro areas, where the labour market is more diversified. From a human capital approach this is rational even if there are no jobs directly in the destination areas. The more diversified labour market in these areas will give the migrants a better chance to find one compared to staying home. Many

of the potential jobs will, however, be found in the lower segments of the private service sector and many of the migrants will be self-employed in these kind of jobs.

There are, however, also regions in the transition countries which are both in- and out-migration areas according to different migratory groups. Especially some border regions where there are large differences in living standards both according to the national centre - where it is higher - and according to the surrounding neighbour areas on the other side of the border - where it is lower. In e.g. Poland's eastern regions, there has been a large influx from abroad from the former Soviet republics. At the same time there has, however, been a large outflow of people to the metro areas in the country (European Commission, no 16, 1996). This phenomenon has certainly hampered the population decline in the eastern part of Poland, but the result seems instead to be an increased polarisation between these peripheral areas and the more dynamic centres in the country.

10.2.7 Fear of Mass Migration?

After the collapse of the Soviet Block, many words of fear were heard about a future mass migration from East to West. The large gaps in wages and living standard, the dreams of a new life in the Western World were factors which all gave rise to fears about a mass migration from the former Soviet Bloc to the Western countries. These economic motives were then reinforced by geopolitical factors such as wars and ethnic conflicts.

The economic factors can be handled more easily than the geopolitical factors. The latter are much more unforeseen and it is almost impossible to take care of these factors in a discussion of future migratory movements. Because of this fact, the discussion - based on traditional neo-classical push-pull models - had been focused on the differences in living conditions, wages, and employment opportunities, which should result in an increased migration, even mass migration, from East to West.

History stands witness of a lot of cases where differences in living conditions have resulted in large migratory movements. During the past fifty years, there has - from a European point of view - been a large redistribution of people from the Southern parts to the Western and Nordic parts. The common Nordic labour market resulted in large migration from Finland to Sweden, from Ireland to England, and as a consequence of the unification of Germany large outflows from the Eastern part to the Western.

These flows - perhaps with the exception of the intern migration in Germany - have however slowed down. One reason is obviously the smaller gap in living standard between the European countries. Another is the changed demand for labour in the traditional in-migration countries. During the 50s and 60s the industrial migration pattern was at zenith - the demand for labour with standardised competence was high at the same time as there was a surplus of this

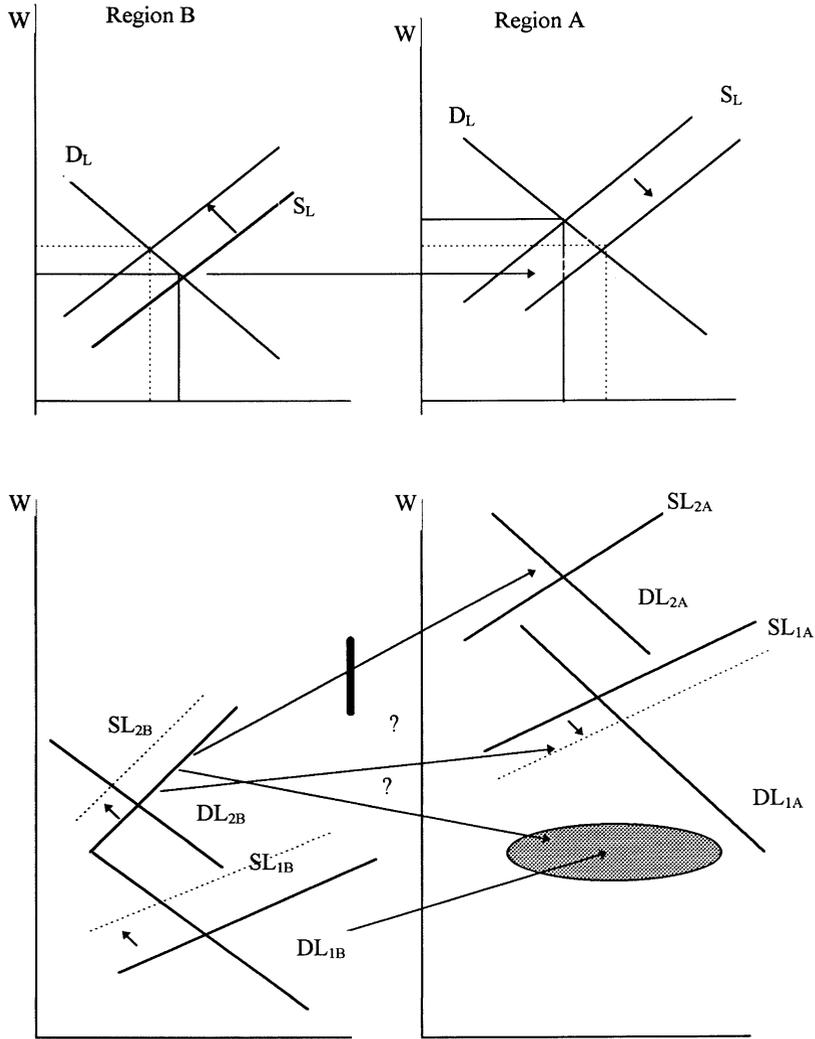
kind of labour in more pre-industrial countries. In these years, the traditional push-pull theory had a good explaining power. Today, the picture is quite different. The old industrial societies are in a transformation process towards post-industrial ones. This transformation give also rise to a quite different situation according to, at least, labour migration between countries at different stages of development - e.g. between the transition countries in the Baltic Sea Region and the Nordic countries.

However, the experience from the first half of the 90s seems to verify the fear of mass migration between East and West. The out-migration from the CEECs to Western Europe - especially Germany - increased during the first years of the decade (Fassmann, 1997, SOPEMI, 1997). In the middle of the 90s, this out-migration movement has, however, slowed down. Instead, the short-term migratory movements had increased. One reason for this is that the most OECD-countries have abolished visa requirements for short-term visits from the CEECs.

There are thus still a lot of formal obstacles towards to a free common labour market which of course are hampering factors with regard to the East-West migration. This fact implies that there still is an enormous potential emigration pressure in the CEECs, which will be released when the borders in the future will be totally opened. This reasoning is in line with the neo-classical push-pull approach with its focus on economic motives and equilibrium. The SLM-approach pay also regard to economic motives but from another point of view - instead of a development towards equilibrium this approach focus on a development towards dis-equilibrium. This dis-equilibrium exists together with situation where migration has slowed down despite of large differences in wages and living standard.

A future common labour market around the Baltic Sea will, of course, stimulate labour mobility as one important obstacle for free migratory movements has disappeared. However, this fact implies not that the consequences will be waves of job-seekers crossing the Baltic Sea looking for jobs, which in many cases don't exist. Besides problems with language, culture, and education, the labour market mismatch between the countries in the Baltic Sea Region will not stimulate labour mobility. We know also from migration within the EU that unskilled unemployed workers have a very low propensity to move. The effects on migration of open borders will also be diminished if the gap in living conditions will be smaller. Much of the fear for a mass migration can thus be cured by a continued positive economic development in the transition countries around the Baltic Sea. The latter development will, however, stimulate migration in another way. The catching-up process will stimulate migration and labour mobility in both directions as a consequence of increased similarities in economic structure on both sides of the Baltic Sea. This has nothing to do with mass migration - instead it is a natural ingredient in economic development. Unfortunately, even if there are signs of an increased return migration to some of the transition countries, a situation of two-way migration is far away.

Figure 14. A schematic view of migration patterns between regions with differing economic structures according to a traditional push-pull approach and according to an SLM-approach.



10.2.8 Integration Obstacles and Institutional Development

The transition from a centrally planned economy to a market economy has not only resulted in a turbulent situation in the economic sphere, but also in the political and institutional spheres. The old bureaucratic system was not in pace with the transformation process - there were, and still are, some time-lags in the transformation process according to the economic sphere on one side and the political and the institutional spheres on the other. Old politicians were fired - or changed attitudes - and new ones made their entries on the political arena. Old legal institutions disappeared and the new ones had a lot of labour pains and teething problems. Even if political decisions were taken very fast, the implementation of the reforms took too long time. Currency problems - with a galloping inflation - and banking problems were other disturbing factors. As late as in 1995, there were severe banking crises in both Latvia and Lithuania. These transformation problems gave rise to a lot of problems in the political and institutional fields, which had - and have - hampering effects on the relations to Western actors. Private investors were scared and hesitated, communication problems with Western authorities arose which certainly accentuated the political and institutional crises.

Thus, in the economic-political sphere there still exist a lot of obstacles. Examples of these are the differing economic systems and the legal and fiscal system. There is still a lot to do in the field of legal properties and ownership's rights. According to technology and education, there are also still big differences with regard to competence as well as aim and direction. Even if these hampering factors are beginning to diminish, the mental maps are still too rigid on both sides of the Baltic Sea, with negative consequences for trade and investment. These mental maps are rather of a socio-cultural kind - e.g. prejudices, bad images, and predetermined opinions - even if they have economic repercussions.

However, according to Agenda 2000, much of the teething problems are now being solved. Especially Poland, but even Estonia, seems to have come a long way in the development towards a market economy with relatively well-functioning institutions and a legalisation fulfilling the requirements of a market economy. Both Estonia and Poland are - according to Agenda 2000 - functioning market economies. Prices have been liberalised, the inflation has been reduced, and the legislative framework is largely in place. In Estonia, the land reform has been too slow and is not completed. In the Polish case, the financial sector is still underdeveloped and the banking system needs further reforms. In the medium term, both Estonia and Poland would be able to cope with the competitive pressures and market forces within the EU provided that they keep the economy open and maintain the market economy. In the Estonia case, however, it seems necessary to broaden the export base in order to be less fragile in the economic sense.

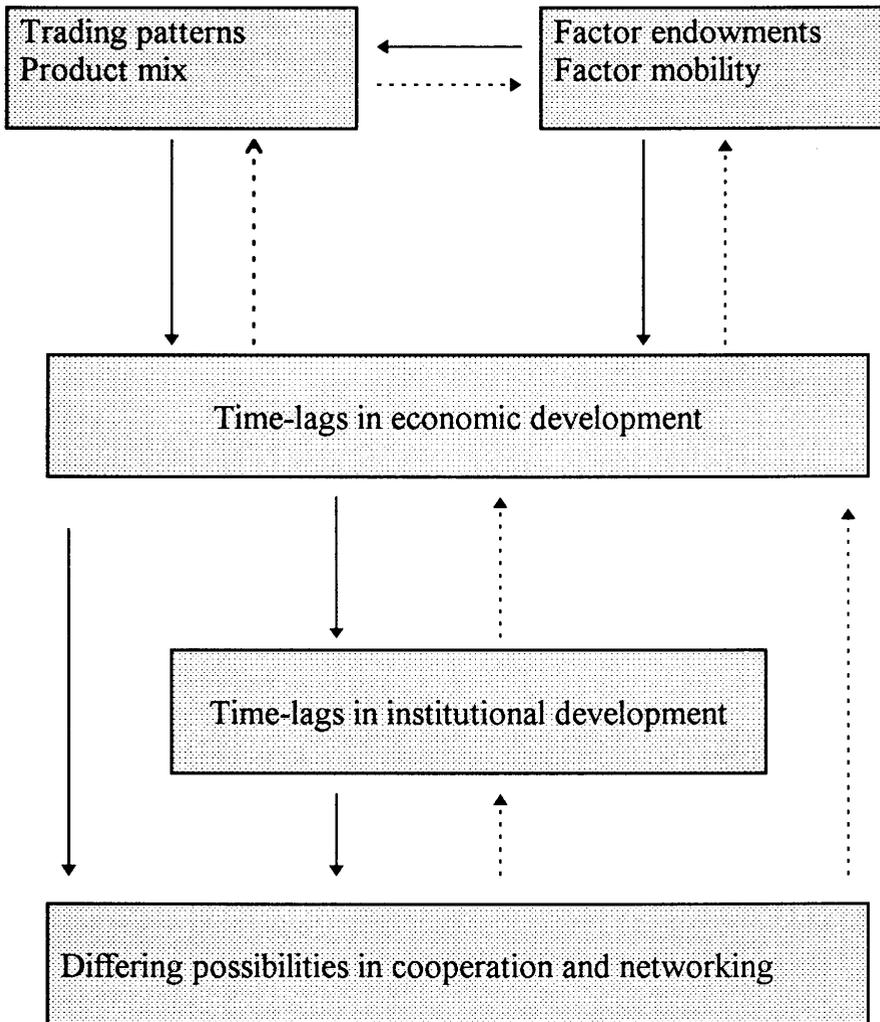
Latvia and Lithuania are - again with reference to Agenda 2000 - in a harder situation with regard to meet the demand from the EU. Both countries have, indeed, made considerable prog-

ress in creating market economies. Trade and prices have been liberalised and they have made significant progress in establishing a market-oriented judicial framework. However, the implementations are still lagging behind in both of the countries. The conclusion is in both cases that these countries will have a lot of problem to cope with the competitive pressures and market forces within the EU, at least, in the medium term.

It is thus obvious that there is a time-lag according to the institutional framework between the Nordic countries in the BSR and the transition countries. This gap will, however, be easier to close than the gaps in the economically related living conditions.

This description can be seen as a background to the context which the transition economies in the BSR meet when they are acting towards a closer integration and cooperation with the Western European and Nordic countries. For a schematic view of these relations, ~~Fig~~ **Figure 15**

Figure 15. A schematic view of the networking between actors at differing economic and institutional stages.



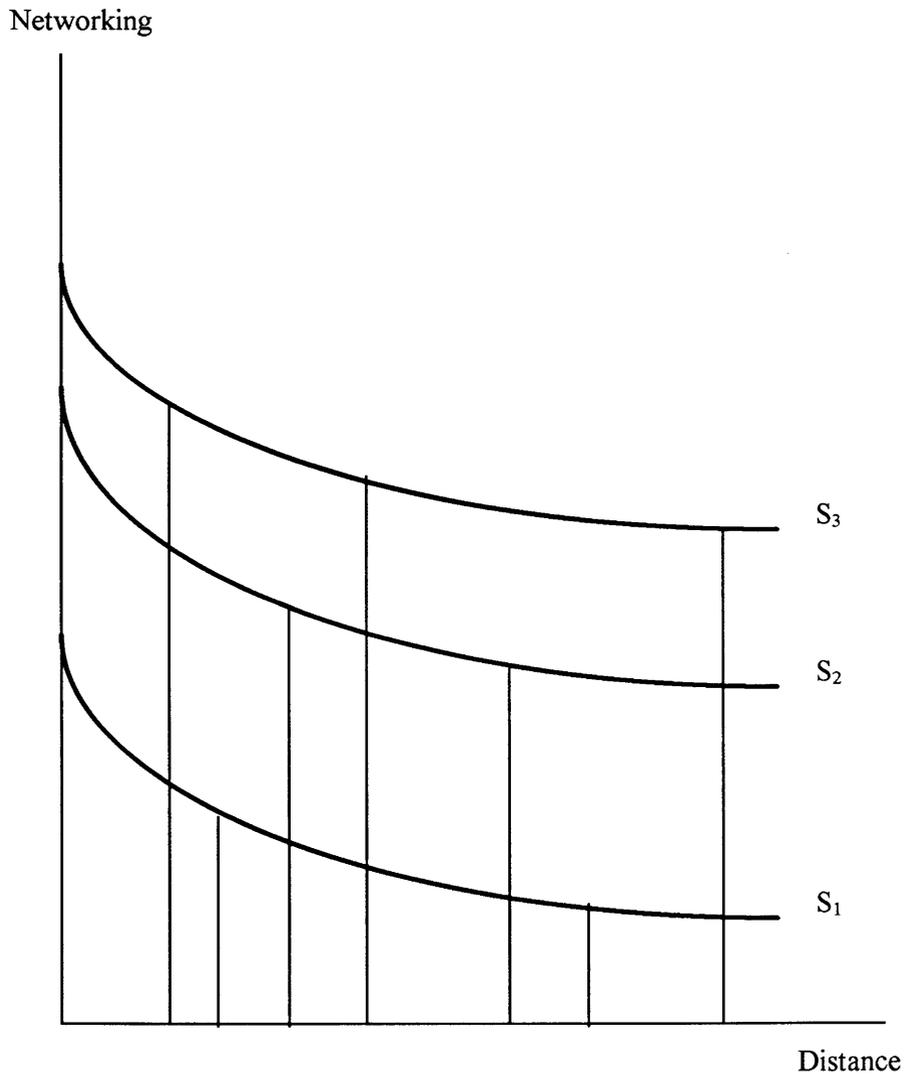
10.2.9 Economic Development and Networking

Most of Sweden's economic contacts are oriented towards the European Union - perhaps with the exceptions of Greece, Spain, and Portugal - and Norway, but even other developed countries, especially then the USA, are of great importance for Sweden's international activities. Despite the short distances around the Baltic Sea, the economic contacts between the transition countries and the EU-countries are still hampered by barriers of an economic and institutional kind. These barriers are partly a consequence of the former iron curtain, but this phenomenon is not the whole explanation. Instead the differing economic development stages around the Baltic Sea seem to be more important than the old political barriers - barriers which, by the way, have eroded very fast during the nineties.

Figure 3 shows in a schematic and simplified way networking between regions at different economic stages. The vertical axis illustrates the contact frequencies between various regions and the horizontal axis illustrates the importance of distance with regard to economic contacts. *Ceteris paribus*, the frequencies of these contacts are a function of the distance - regions who are closely located to each other have more contacts than regions which are located far away from each other.

It is a well-known fact that this friction-less contact pattern does not exist - and never has. Instead there are a lot of economic and institutional barriers as a consequence of regions differing positions according to economic development and transformation - political alliances or military occupations are excluded in the figure. In figure 3, these different stages are illustrated by the three S-curves, where S_3 represents regions at the most developed stages and S_1 regions which are lagged with regard to economic transformation. In figure 3, the distance as a very small role in the contact frequencies between different regions. Instead, the most important factor is the development stages. More developed regions have more contacts with other developed regions than with less developed. The same is also valid for the less developed regions - they have more contacts with developed regions than with other less developed regions.

Figure 16. A schematic view of the connection between networking and distance with regard to regions at differing development stages.

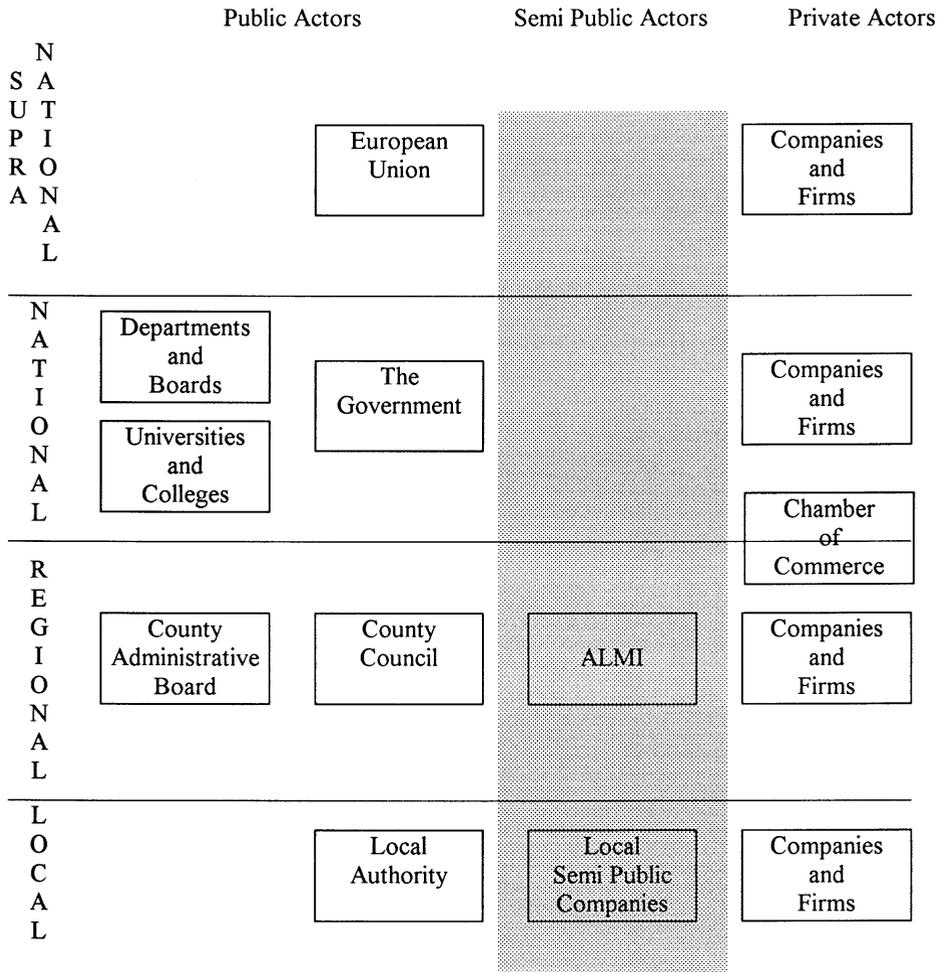


10.3 Cooperation and networking in the BSR - the Swedish case

10.3.1 Institutional Framework

The new situation in the Baltic Sea Region has resulted in a greater interest in the transition process from the EU countries. The Swedish government has began to be engaged in a lot of projects which culminated in the so-called "Baltic Sea Billion" with the aim to stimulate the development in the Baltic Sea Region both politically and economically. Economically as a consequence of the significant time-lag in development both according to market relations and living standard, and politically as a consequence of the almost absent democratic institutions and the underdeveloped administration. The following figure shows a schematic presentation of the institutional framework of different Swedish actors in the BSR networks - both public, semi-public, and private.

Figure 17. A schematic presentation of the institutional framework of different Swedish actors in BSR networks.



The EU, Sweden, and the BSR

The new circumstances with new members in the EU and the EU's support to stimulate the development in the transition countries have resulted in a lot of new funds and projects. TACIS, PHARE, Ecos-Overture, and Interreg IIC are EU programs directed to stimulate the economic, social, and democratic development in the BSR. The common aims/objectives are Baltic Sea identity, broad cooperation, and network support. The basic principle for these EU programs is integration/coordination, progressive approach, programs based on Baltic Sea conditions, and "user-friendly" programs. TACIS is oriented towards Russia and other countries in the former Soviet Union with the exception of the Baltic States and PHARE is oriented to Central Europe, including the Baltic States. Both programs are more focused on sector projects than on individual projects and both are guided by the demands from the involved countries. PHARE started in 1989 and TACIS in 1991.

At the Copenhagen-meeting in 1993, PHARE got a new dimension in the sense that it should prepare the PHARE-countries for a future membership in the EU. This has resulted in more specific programs for the various transition countries in order to attain *acquis communautaire*, which means convergence of laws, rules, institutions, etc. to EU-standards.

Another central ingredient in the PHARE-program with regard to the transition countries' membership in the EU is fulfilling of the market reforms and the restructuring, transformation, and modernisation of the economies in order to be able to cope with the competitive pressures and market forces within the EU.

Ecos-Ouverture is a EU-program oriented towards inter-regional and inter-local cooperation and was initiated in 1991. The purpose is to support cooperation between regions and cities within the EU and corresponding actors in Central and Eastern Europe. In Sweden The Swedish Association of Local Authorities (Svenska Kommunförbundet) is responsible for the program.

The Governmental Engagement

The Swedish Prime Minister has expressed a wish that the Baltic Sea shall be a symbol for peaceful and democratic cooperation - the Swedish government is thus involved in a cooperation with the BSR states. This involvement is partly a function of the risks which are connected with fear for a lopsided and dependent development, and partly a function of the future benefits which a sustainable economic development will result in both for the BSR countries on one side and Sweden and other Western countries on the other, which will rise the purchasing power in the transition countries. A central ingredient in both of these aspects is the environmental problems - a sustainable environmental development seems to be a precondition for a positive economic development as well as avoidance of the risks connected with a lopsided

economic development. There are - in short - four overall purposes for Swedish governmental engagement in the Baltic Sea Region (prop 1994/95:160):

1. The security aspect
2. The democracy aspect
3. Support a social sustainable economic transformation
4. Support an environmental sustainable development

According to the Swedish Minister for International Development Cooperation, has accentuated the importance of networking, transfer of knowledge, and personal contact as central ingredients to fulfil these aims. In this process, the municipalities are one of the central actors (Ekström, 1995).

In the so called "Baltic Sea Billion", one of the purposes is that the projects shall create employment both in the BSR and in Sweden. In the allocation of the billion priority will be given to projects in the following fields - environment, energy, education, entrepreneurship, and administrative reforms. The problems today are, however, that the absorption capacity seems to be inefficient and restricted. There will also be cooperation with other financiers both in the Nordic countries and other international actors. This cooperation will result in a stronger position in the negotiations. In any way, the receiving BSR countries are, naturally, eager to get as much money as possible - the problem seems, however, today to be the absence of big solid projects.

More than two thirds of the Swedish aid to the BSR countries are of a bilateral character and the ministry of foreign affairs has the responsibility for it. Much of the practical work is carried out by SIDA (Swedish International Development Authority). The governmental authorities cooperate also with other actors on the national, regional, and local levels. Much of the activities are oriented towards transfer of knowledge in form of e.g. education, consulting, and delivering of experts. This also means that there are a lot of actors on the regional and local level who are oriented towards the BSR region in their business and networking activities. Many of these activities can be seen as some form of foreign aid but in many of them there are also hopes about future economic benefits imbedded in the projects.

Legal Restrictions and Preconditions

In Sweden, foreign policy is within the government's exclusive domain. This means that national laws constrain regional and local foreign activities. Since 1986, the Swedish communes have possibilities to support Swedish companies and their activities abroad if these are restricted to supply of services. During the 90s - since 1994 - the restrictions according to international activities of the Swedish county councils and municipalities have larger possibilities to act on the international arena as a consequence of the fast changing conditions. The Swedish

county councils and communes are now able to export services in the case that they consist of communal standard activities. Twinning relations are accepted as a communal task if they only require minor financial resources. The twinning activities have, however, been eased somewhat during the nineties (Johansson and Stålvant 1996).

Development of Network Activities at the Regional Level in the BSR

The County Administrative Boards have since 1993 been participating in cooperation with corresponding authorities in Estonia, Latvia and Lithuania. The overall objective with this cooperation is to support the process and reforms towards democracy and market economy, and the development towards an improved environmental situation around the Baltic Sea. The focus of the County Administrative Boards activities is to transfer knowledge and experiences from the own work to the parties concerned in the Baltic states. A precondition for the different activities is that they fit into the Swedish government's general strategy for each of the Baltic States.

During the period 1993 to 1997 more than 180 projects have been initiated between the County Administrative Boards and the Baltic states. Due to the County Administrative Boards very extensive field of operation the different projects are of a highly varying nature.

The Swedish county councils are restricted in their international activities in the same manner as the Swedish municipalities. The primary purpose of the Swedish county councils is to organise and run different activities within health and care. This has also implications on the activities of the Swedish county councils in the BSR, which are dominated by projects within these fields. Other fields where the county councils are involved - but to a lesser degree - are education, communications, cultural exchange, environmental and industrial activities, and democratic development.

Development of Network Activities at the Local Level in the BSR

As mentioned above the Swedish Minister for International Development Cooperation, has underlined the importance of networking, knowledge transfer, and personal contacts as central ingredients to implement the Swedish policy in the BSR and that the municipalities are central actors in this process. At the local level most of the cooperation started in the form of twin towns or twinning projects. Before the collapse of the Soviet Bloc, the Swedish municipalities were very sceptical to establish twinning agreements with municipalities in the transition countries. This scepticism was partly a result of the fear of centralism and rigidity in the Soviet Bloc and partly a result of language problems (Ekström 1995, Stålfors 1998). Many of these doubts have, however, changed during the 90s and a lot of twinning agreements have been concluded.

The networking and cooperation between Swedish municipalities and municipalities abroad are - as a consequence of the legal restrictions and preconditions - going along two lines:

- aid financed by the municipalities where governmental agreement is necessary
- consulting, especially within the service sector, where the state is acting via SIDA or any other firm. Even in this case there are some restrictions with regard to the activities that the various municipalities are involved in.

At the local level most of the cooperation started in the form of twin towns or twinning projects. The leading principle of twinning between cities - both around the Baltic Sea as between other cities - is to create contacts and to organise meetings about issues, problems, and opportunities appearing on the municipal agenda. Compared with the twinning activities between Nordic and Western European municipalities, the twinning projects around the BSR have changed character during the 90s - from cultural meetings to concrete projects to strengthen the competence with regard to most municipal activities. Two thirds of the Swedish twinning activities established after 1989 have been oriented towards the BSR (Johansson and Stålvant, 1996). The characteristics of the twinning programs have been summarised in table 9. The same results will occur if we take a look at about 300 twinning cooperation projects between the Swedish cities (municipalities) and Poland and the Baltic States up to March 1996 (table 10).

The Swedish local authorities have about 200 twin towns in the BSR transition countries. As can be seen from table 9 and table 10, business relations play a very small - but increasing - role in the different programs. As a matter of fact, many of the other projects have as a purpose to create good preconditions for economic development both in the Swedish and the transition municipalities (Jerkert, 1997). To put it in another way, sustainable economic development is a prerequisite for an economic transformation in the BSR where both the Nordic and the BSR countries are winners - on national as well as on regional and local levels. By the way, many of the actors at the regional and local level are semi-public or private entrepreneurs who are acting in the BSR countries with hopes of future contracts and then economic revenues while other actors are more official authorities. Even the latter are, however, often involved in projects which can be seen as preconditions for other more profit-oriented Swedish enterprises. There are, certainly, great expectations about a growing market for Swedish products in the transition countries around the Baltic Sea (Jerkert, 1997; Stålfors, 1998). The fear of "missed opportunities" according to the economic transformation in the BSR seems to be widely spread among the Swedish regional and local actors.

Another reason to the increasing interest of economic incentives in the cooperation between the Swedish municipalities and the corresponding ones in the BSR is the worsened economic situation in the Swedish municipalities during the 90s, which has resulted in more business-oriented agreements. The Swedish municipalities' worsened economic situation has also resulted in a process where the sub-national levels are getting more economic responsibilities for

their own situation. One of the consequences of this changed attitude is an increasing international cooperation in economic fields (Stålfors, 1998).

The environmental problems in the Eastern and Southern parts of the Baltic Sea have high priority in the Swedish cooperation with Poland and the Baltic States. Even these projects can be seen as prerequisites for a sustainable economic development, even if these proposals are not explicitly pronounced in the contracts between the different actors on both sides of the Baltic Sea. The cooperation is still predominantly of unilateral character, almost synonymous with foreign aid, but they can also be seen as bilateral aid in the sense that many of the projects will stimulate the Swedish economy both in the short - and especially - in the medium-term.

A sustainable economic development - including solution to the environmental problems - around the Baltic Sea seems to have very high priority in the cooperation programs. Even projects dealing with democracy and administration - including education in functioning of market economy and transferring of know-how - have in the long run effects on a sustainable economic development. Economic reforms and infrastructure development are necessary pre-conditions for an economic development around the Baltic Sea but these projects must be complemented with democratic training, education, transfer of knowledge and technology if they will have the expected effects.

The following figure (figure 5) gives a schematic view of the urban networking between the Swedish cities or city regions and the corresponding areas on the other side of the Baltic Sea. The figure is based on some tentative observations of differing networks between Swedish cities and cities in the transition countries in the BSR. The vertical axis indicates if the economic relations are mutual or bilateral - two-way or one-way flows. The horizontal axis indicates in what way the legal and informal institutions correspond to each other. The figure is, thus, divided in four corners. The activities in corner B are the types which are most connected with cooperation and integration - networks which can be seen between e. g. the metro areas in Western Europe. In corner D, we see the opposite phenomenon - an urban networking which has more similarities with centre-periphery relations than with networking on an equality basis.

As can be seen, the networking between the Swedish actors and the corresponding ones in the BSR differ from the networking between Sweden and Western Europe. From figure 5, it is also obvious that the cooperation with the transition countries in the BSR has much of unilateral aid where the long term effects today are not visible. This phenomenon seems partly to be an effect of the fact that much of the contacts and networks have been carried out by public actors where the democracy aspect and transfer of knowledge are much more pronounced than the activities of the private actors. The positive economic effects seem also to have been - at least in the short run - overestimated among a lot of Swedish businessmen, which have met a lot of problems especially in Russia. Things seem, however, to be much better in the Baltic States and Poland. In the long run it is obvious that the economy at the Eastern side of the Baltic Sea will

grow very fast and result in large markets for Swedish products.

Figure 18 indicates also that the cooperation seems not to be of a two-way communication - the Baltic actors are still dependent on the Swedish generosity. Many of the projects are also still of sporadically cultural exchange within twin city programs and have almost nothing to do with urban networking, even if these forms can develop in that direction.

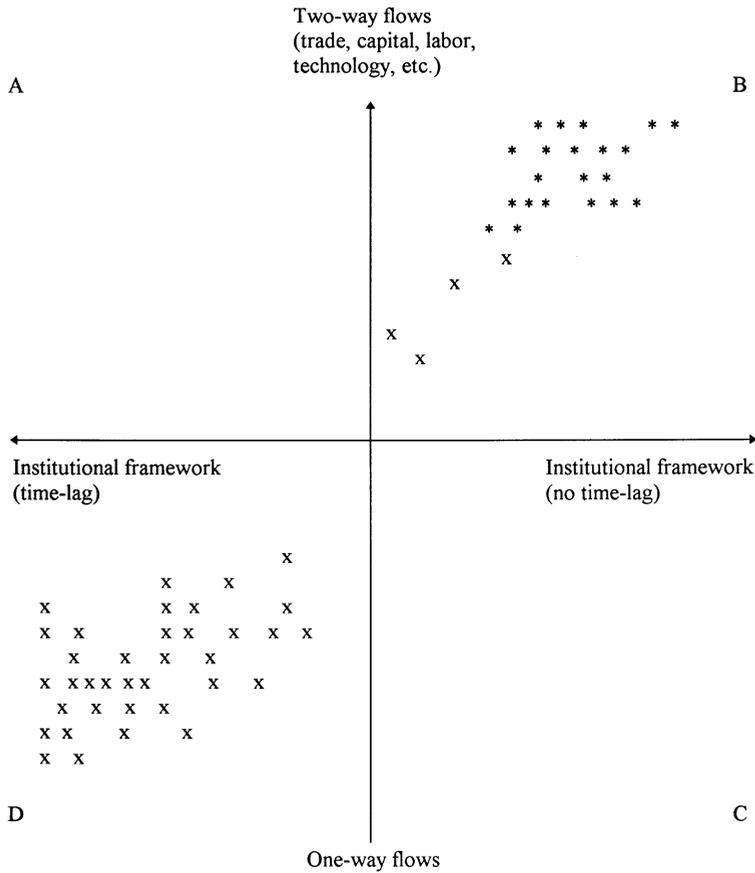
One of the reasons behind this unilateral networking between Sweden and the BSR-countries is of course the tremendous time-lag in economic development. Differing economic structures result in differing opinions in which fields cooperation is most wishful. Swedish actors - especially public actors - have quite different priorities than the corresponding actors in the BSR-countries. Another problem in the networking process which can, at least, partly - explain the unilateral networking is the time-lag in the institutional sphere. These problems can perhaps explain the great interest among the Swedish actors. Better functioning institutions are perhaps a precondition for better networking in other fields. In this sense, this type of networking is a good investment in the medium and long term.

To sum up, it is obvious that *democratic development* is a basic ingredient for most of the networking activities between Swedish actors and the corresponding ones in the transition countries on the other side of the Baltic Sea. Besides that democratic development has high priority in the Swedish aid to the transition economies, the absence of democratic traditions is a big problem with regard to cooperation with these countries. Without democratic institutions and security of property, it seems hard to establish a functioning market economy.

The democratic development is also fundamental for a functioning administration and organisation, both on national and local level. The incompatible background, education, and qualifications within these spheres cause big interaction problems between the traditional market economies and the transition economies. Many of the projects have thus the aim to upgrade the capacity within these fields, including financial and budgetary tasks. Both the democratic aspects of networking and the upgrading of administration and organisation are more of public interest than of semi-public - and especially - private interest. This fact is - at least partly - an effect of the legal restrictions on the Swedish communes activities abroad.

Other ingredients with regard to the networking in the BSR are better *communications and infrastructure*. Better and more frequent transports will stimulate the contacts between regions and municipalities on both sides of the Baltic Sea - a condition which seems to be very important in the development of the BSR's position in the new Europe.

Figure 18. A schematic view of networking and cooperation between actors at different development stages¹⁷.



* Networking between e.g. Western European countries
 x Networking between e.g. Sweden and the transition countries in the BSR

17 The figure is based on four Swedish case studies in the project "Urban Networking as a Learning Process in the Baltic Sea Region". The cases are the Stockholm, Malmö, Karlskrona, and Västerås regions (TTWAs). The figure is based on discussions in the project from an outline by Bjarne Lindström. The following passages are also partly a result of the case studies with regard to the Swedish urban networking in the BSR.

With regard to *socio-cultural relations*, this aspect is a common writing according to different activities between the Swedish municipalities and the corresponding ones in the BSR. Stronger socio-cultural relations in form of cultural exchange - music, sports etc. - are a very common ingredient in the twin city activities. A wider interpretation of this phenomenon is, however, that stronger socio-cultural relations will contribute to better communications and then to a more integrated economy between the countries and regions around the Baltic Sea. These aspects seem to be a common feature in the networking between cities and municipalities.

The *environmental aspects* have high priority in the Swedish foreign aid with regard to this part of the world. This fact permeates many of the networking activities both on national and local level. Especially many of the public projects are - even at the regional and local level - aimed to solve environmental problems in the BSR. These often large projects will, however, have spill-over effects on semi-public and private enterprises both in Sweden and in the transition economies. Even if the economic benefits are small or negligible in the short run, it will perhaps lead to economic benefits in the long. Solving of environmental problems and future economic benefits are thus not contradictory, instead they are complementary activities.

Strategic planning and city marketing may - at least in first sight - be seen as a result of an increasing competition between cities and urban regions. In a wider sense, however, these activities may be seen as a method to get synergetic effects and then to strengthen the involved cities' competitiveness against other cities. This is especially relevant for metro areas and big cities, where there are more people and organisations involved in this business. There is also - which is pronounced in many projects - a lot of networking where the aim is to market the own city as a good investment place or a place with special qualities for tourists and travellers.

Economic benefits seem to have a less important role in the official documents. This fact is, however, not the same as economic benefits today or tomorrow are of less importance. Instead, in many of the projects there are expectations of future economic benefits, even if they are not explicitly pronounced. Economic benefits are e.g. tourism, increased export, new jobs - both in Sweden and in the BSR - and synergetic effects which will increase the ability to compete and then stimulate economic growth. Especially in large projects, where semi-public and private actors are involved the economic aspects are more pronounced than in projects where the public actors dominate. One result of this phenomenon is that the economic aspects are more explicit and frequent in the big cities' networking with their more diversified network activities than in the networking of the small cities.

10.3.2 "Missed Opportunities" or "Integration, Cooperation, and Development"

During the first half of the 90s, the European economic map changed dramatically. The collapse of the Soviet Bloc gave rise to a great turbulence in both the political and economic

sphere. A crude form of capitalism substituted the old central planned economy - a transformation where the institutional and legal spheres lagged behind. Today, the economic development in the transition countries have begun to stabilise and Poland and the three Baltic States have made their applications for membership in the EU.

In any case, the integration around the Baltic Sea will continue. The gap in living standard between the two blocs - the living standard in the Nordic and Western Bloc is about ten times higher than in the transition countries. This will unavoidable have some impacts on the transformation process in the Western and Nordic countries in the neighbourhood. Labour and capital movements will occur, trade will be intensified - processes which according to the theory will result in welfare gains according to the whole region. In a transformation process, however, there are regularly both losers and winners. This will indeed also be the case in this transformation process. The risk is, however, that this will result in a policy which hampers the transformation process in a way that it will take character of some form of "fallacy of composition". In history, there are a lot of cases where fast transformation processes have resulted in implementation of economic political means which, certainly, have hampered the bad effects of the transformation process in the short run, but also hampered the positive effects in the long.

One prerequisite for a successful integration and development in the Baltic Sea Region is closing the welfare gap between the countries and establishing more diversified economies. This implies also a transfer of knowledge and technology from the old industrial countries to the transition countries and not only investment in labour-intensive activities. One effect of this is a growing intra-branch trade, which of course will reduce the comparative advantages of the old industrial countries. This is, however, a natural ingredient in a transformation process. Otherwise, the gap in economic development will persist, even if the gap in living standard will be narrowed. This is a form of centre-periphery relation - a relation which we find between the developed and underdeveloped countries. This will probably hamper the development on both side of the Baltic Sea and the future history will witness a lot of "missed opportunities". Instead of this pessimistic scenario there is a more positive alternative - instead of future stories of missed opportunities the historians will see strategic activities around the Baltic Sea, where the short-term problems did not block the view for medium and long-term strategic and successful cooperation between the actors in - and even outside - the Baltic Sea Region.

10.4 Tables

Table 3. GDP per capita; current prices (USD).

	1994	1995	1996 (prog.)	1994 (USD at PPP)
Estonia	1545	2450	2960	3800
Latvia	1437	1780	2045	3214
Lithuania	1147	1602	2160	3815
Poland	2403	3056	3838	5015
Russia	1873	2463	2980	4171
Sweden	22439	25946	26802	-

Source: Stockholm Institute for East European Studies (SIEEE), 1997.

Table 4. Economic structure in the Baltic States, Poland, Russia 1990 and 1993, and Sweden 1960 and 1993.

	Primary production	Manufacturing/ construction	Services
Estonia 1990	12	43	46
Estonia 1993	11	36	53
Latvia 1990	17	37	45
Latvia 1993	20	29	52
Lithuania 1990	19	41	40
Lithuania 1993	23	33	45
Poland 1990	27	36	37
Poland 1993	26	31	43
Russia 1990	13	42	45
Russia 1993	13	42	45
<i>Sweden 1960</i>	<i>15</i>	<i>44</i>	<i>41</i>
Sweden 1993	3	25	72

Source: Central Statistical Office, Warsaw, 1995

Table 5. Unemployment rates (%) in Poland and the Baltic States.

		1992	1993	1994	1995	1996	1997
Estonia	Registered	-	6	5	5	6	-
	LFS	-	-	-	-	-	-
Latvia	Registered	-	7	7	7	7	-
	LFS	-	-	-	-	-	-
Lithuania	Registered	-	4	5	7	6	-
	LFS	-	-	-	-	12	-
Poland	Registered	14	15	17	15	15	14
	LFS	-	14	14	14	-	-

Sources: European Commission, DGXVI & OECD, Economic Outlook no. 61, 1997

Table 6. Unemployment among different groups in the Baltic States and Poland in 1995.

	Estonia	Latvia	Lithuania	Poland
Youth unemployment (%)	20	20	20	31
Long-term (% of total)	32	25	34	-
Female share (% of total)	69	51	60	-
LFS male (%)	-	-	-	12
LFS female (%)	-	-	-	15
Long-term male (% of total)	-	-	-	37
Long-term female (% of total)	-	-	-	44

Source: European Commission, DGXVI

Table 7. Export shares (%) from the transition countries in the Baltic Sea Region 1994

	Raw-material	Textiles and food	Others
Estonia	30	25	45
Latvia	26	26	48
Lithuania	8	32	60
Poland	28	16	56
Russia	56	18	26

Source: Fredriksson, 1995

Table 8. Rate of specialisation (production/consumption) in different branches in the Swedish industry 1985 and 1994.

	Mining	Labour	Capital	Knowledge	R&D	Others
1985	0.21	0.94	1.22	1.24	0.99	1.02
1994	0.37	0.92	1.40	1.42	1.13	0.99

Source: SOU 1997:160

Table 9. Export and import shares (%) and export/import ratio with regard the different branches in the Swedish industry 1994.

	Mining	Labour	Capital	Knowledge	R&D	Others	Total
Export	1.1	17.4	24.6	34.3	19.7	2.9	100.0
Import	5.3	24.2	16.8	28.2	21.5	3.9	100.0
Ratio	0.26	0.89	1.80	1.49	1.12	0.91	1.18

Source: SOU 1997:160

Table 10. Cooperation between the County Administrative Boards and the Baltic States according to type of activity. 1993-1997.

<i>Type of activity</i>	<i>Estonia</i>	<i>Latvia</i>	<i>Lithuania</i>	<i>Total</i>
Trade and Industry	6	6	3	15
Agriculture	2	5	3	10
Rural Development	10			10
Fishery				
Education	4	2	1	7
Energy			3	3
Environmental Conservation	9	14	7	30
Social Welfare	5	6	4	15
Civil Preparedness	6	5	2	13
Democracy and Administration	27	19	13	59
Tourism	6	2	2	10
Equality	2	2	7	11
Total	77	61	45	183

Table 11. In-depth twinning projects in the Baltic States, Poland, and Northwest Russia 1994-1996.

<i>Type of project</i>	<i>Baltic States %</i>	<i>Poland %</i>	<i>NW Russia %</i>
Democracy/Administration	34	61	31
Environment	29	25	7
Social welfare/Education	20	13	26
Infrastructure	11	1	28
Trade and Industry	6	0	8
Total	100	100	100
Number of projects	150	45	25

Source: Federation of Swedish County Councils and Swedish Association of Local Authorities.

Table 12. Twinning cooperation projects between the Swedish cities (municipalities) and Poland and the Baltic States up to March 1996.

<i>Type of project</i>	<i>Poland & the Baltic States %</i>
Democracy/Administration	43
Environment	23
Social welfare/Education	21
Infrastructure	9
Trade and Industry	4
Total	100
Number of projects	Ca 300

Source: Federation of Swedish County Councils and Swedish Association of Local Authorities.

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11. Outsourcing of production of clothes from Jutland (Denmark) to Poland and Lithuania

By Sven Illeris, Denmark

This study concerns the textile and clothing industry in Denmark and in Poland. It is a small case-study. Only about 10,000 jobs have been concerned, but the process is quite typical for several sectors and countries. And the changes have been extremely dramatic. This sector in Denmark has been turned completely up and down in 5 years. So it is not a gradual transition, it is really revolutionary. The study is based on interviews with Danish firms and experts, as well as on statistical data.

The clothing and textile industry is a sector with very low entry barriers, both in terms of capital and skills. The labour force is mainly female, and in many industrial societies the textile industry is the first one to arrive. In mature economies it remains a labour intensive sector, where, today, competition is largely labour wage competition. It is a very fierce competition. In Western Europe this sector has gone through a reduction since World War 2, but it has not disappeared completely, and in some areas some textile and clothing industry remains, in parts of Italy, but also on a small scale in an area of Western Jutland around the city of Herning. This area may be called an industrial district, characterised by many small firms with very elaborated and well developed network between them, and also a tradition of entrepreneurship, where the young people started their own firms. They did not require much capital, one could buy a second-hand knitting machine, and put it up in a garage, and if you were successful it could develop into a fine factory.

Poland also has a tradition for textile industry, particularly in Lodz. Here the industry during the communist period was characterised by very large textile firms, gradually getting very worn-down. It was not a sector where much money was invested, but it was a main supplier for the whole COMICON market. In the 1980s a number of small private firms was started in Western and Northern Poland.

After 1989, when borders got more open, this meant increased competition in Western Europe, both from East European and South East Asian countries. Prices are said to have declined by roughly 35% over the last 8 years. The Polish wage level, which is of the magnitude of 10% of the wage level in Western Europe, is extremely important. Of course, hourly wages are not the only cost, there are differences in productivity and transport costs, and so on. Labour productivity is a little lower in Poland than labour productivity in Denmark, but not much, after all the Poles had a good tradition for textile and clothing work. All the Danish firms that I have interviewed said that the quality of the work was the same as in Denmark. This was not the case earlier because the COMICON market was not very much tuned to quality requirements. For

sewing operations which is a main part of the clothing industry, the total costs are estimated to be about one third if a Danish firm has its sewing-work done in Poland. One third is a substantial reduction of the costs, and there is also some work going to Lithuania where wages are still lower.

The agreements between Poland and the European Union made soon after 1990 resulted in a tariff structure, which was quite favourable for the type of work which I am going to describe, namely the putting out of sewing operations by Danish firms to Polish firms. From January 1998 there are no tariffs at all on re-import of cloth from Poland to the European Union.

So, when prices slipped by one third in Western Europe, the only way for Danish firms to survive was to find a way to cut their costs, and the way was to put out the sewing operations to Polish firms. The Danish firms I am talking about were small and medium sized, there are no big firms involved in this process. Some of them contacted big Polish factories, but they were not well suited for co-operation. The small private Polish firms that existed were much better suited for co-operation contracts. So Danish firms have made contracts with Polish firms to make the sewing operations in the production of cloth. Something like 10,000 jobs have disappeared in Denmark, and have been created in Poland. In Denmark there are virtually no firms left who do their own sewing work. Because of this, in the course of a few years the whole sewing employment has disappeared in Denmark, except for a little sewing of models etc.

Figure 19 shows the value of Danish sewing operations put out to Poland from 1987 to 1996. It has increased from very little in 1989 to something well over 1 billion Danish kroner per year. The other curve shows the export of crude cloth to Poland. The material is sent back to Denmark after the sewing, as clothes.

Figure 20 shows the development of the production value in the textile sector in Europe from 1990 to 1996. In the EU of 15 countries, the value of production in textiles has decreased by something like between 15-20% over these years. But in Denmark, the value of the production has even increased a little. So by way of this outsourcing, the Danish sector has done quite well. Today, all firms state that they make good profit out of this system.

The general position of the Danish sector in the international division of labour is very good. It was an export sector before 1990, but 70% of the exports went to the other Nordic countries, so the sector was not all that internationalised. Today the exports have increased, and only 40% go to other Nordic countries the sector has expanded its market in the EU countries.

As mentioned, it is mainly the sewing operations, which are the most labour intensive ones, that have been put out to Polish firms, the Danish firms keep the design function, which is extremely important for this sector. The clothes sector has special characteristics, it is very much influenced by changes in fashion. The firms put a lot of resources into finding out what the consumers will buy next year, next month or next week, because fashions change that fast

in some parts of the clothes market. It is very difficult to hit properly the future tastes of teenager girls. The firms plan for half a year or a year and try to guess in what way the demand will develop, they make their designs accordingly and try to organise the production for the demand foreseen. Then when the clothes are out in the shops it may turn out that they have guessed right, but in a too modest way, that a particular product is demanded so much that the firm has to produce 10 or 100 times more than planned, and this it will have to do within a few weeks. Because after 2 months it is too late, they cannot sell it anymore. So it is extremely important to guess as correctly as possible, and to be flexible - to be able to increase the production and make small design changes very rapidly, and try to avoid producing things which cannot be sold.

The Danish firms also keep the purchase of raw material, they usually do the knitting themselves for several reasons, and usually keep the dyeing of the cloth, but the latter will probably be switched to Poland. The dyeing process is polluting and the Danish rules are much stricter than the Polish rules. But if and when Poland enters the EU, the EU rules will also have to be applied to Poland. The Danish firms still do the cutting, which requires big CAD/CAM machinery, but some day this will also be switched to Poland. When the Danish firms have cut the cloth pieces, they ship them to Poland. It only takes a day from Herning to North Western Poland by a lorry, and actually the cloth remains Danish property, while it is sewn in Poland. Then it is shipped back and the Danes do the finishing, the quality control and the marketing.

The transport costs themselves are marginal, but the time consumed by the transport is important because of the very short time in which the total production process must be carried out in order that the firm remains flexible enough to follow the market. That is the main reason why outsourcing to South East Asia is insignificant in the fashion sector. Another factor is the control of the operation - the Danish manager can go to Poland in a few hours if there is a problem or if the market shows that some little thing should be changed, and get it changed very quickly. If you are the manager of a small firm with 50 people employed, you do not just go to South East Asia without notice, but you do go to Poland. The planning and control of the logistics, which must be very flexible is quite complicated but very important.

Usually the arrangements are short term contracts between Danish and Polish firms, sometimes contracts covering a year or more. However, there are also Danish investments and joint ventures, in these cases it is normal that the Danish input is partly constituted by the machines which were previously used in Denmark. There are also factories in Poland which are totally Danish owned, but not many. What is left in Denmark is the knowledge intensive service work of designing, managing and marketing. The close contact with the market is extremely important, to get the consumers's signals, what will they buy

The Danish firms still think of themselves as manufacturing firms, but in reality they are service firms - producing design, organisation, logistics, purchasing and marketing. They make less

and less of the material production

What about the unemployed seamstresses in Denmark? Fortunately, this process has taken place in a period with economic growth, so they have found other jobs. Some of them have gone into the furniture industry (which many people suppose will be the next industry to go to Poland). It is traditionally a male industry, but so far it has employed many of these women. Others have got jobs in public welfare services, care for elderly people and so on, which was previously lagging a bit behind in this part of Denmark. The Herning area still has the lowest rate of unemployment in Denmark around 5%.

As already mentioned, the Danish firms were traditionally small. Now the development of complicated systems means that they employ more specialists, and therefore very small firms are not viable. The surviving firms are medium sized, and there is little room for the traditional entrepreneur who started with a little sewing and then bought a second-hand knitting machine. So one of the questions is the future of the industrial district around Herning as it has existed until now. It can hardly survive in its old form, but it may survive in a modified way, for a couple of reasons. First, due to the training system in Herning. The sector has invested in a very good schooling system ranging from low skills to the most sophisticated skills. Thus, there is a supply of qualified labour in Herning. Second, the networks may remain important, even if they are not networks of physical production any longer.

As regards the future international division of labour, I should like to draw the attention to the following aspects: First, the future market in Poland. There will in all probability be an increase in purchasing power, and the Danish firms think that they may get their share of this future market, since they have contacts and know something about Poland. Some of them have opened shops in the big Polish cities. If they are not profitable today, they must be seen as an investment for the future.

Second, the Polish firms do not only get activity and employment out of the outsourcing, they also get transfer of knowledge. All the Danish firms say that in their own factories and in those of their Polish partners, they want that Polish top and medium level managers are employed, who know the local context better and are much cheaper than the Danish ones. So the Danish firms train Poles also to do the more sophisticated jobs, and they even do it with subsidies from the Danish government. They all foresee that Poles can take over more and more sophisticated jobs and after some years run the whole business themselves. Then possibly the Danish firms will move to Lithuania or other still lower cost countries.

Figure 19. The value of Danish sewing in Poland and of Danish cloth exports to Poland, 1987-1996

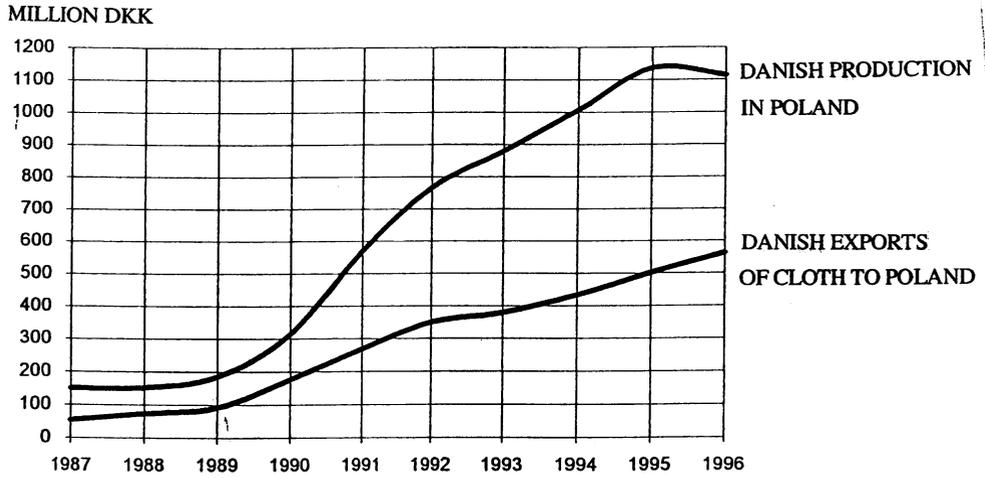
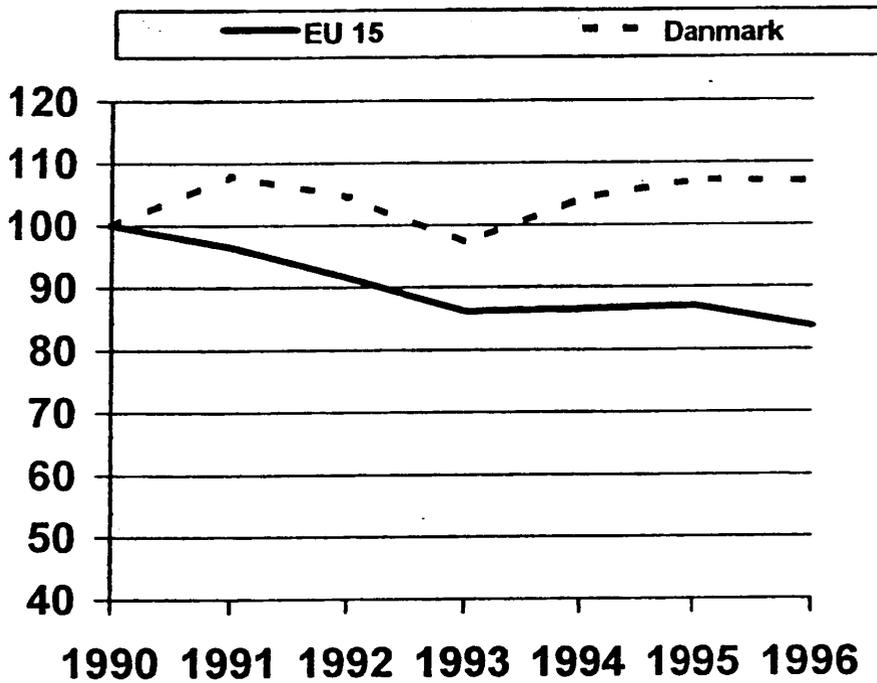


Figure 20. The value of textile and clothing production in Denmark and the EU of 15, 1990-1996.



Source: Nielsen, G. and S. H. Pedersen (1998), Dansk tekstil & tøj 1987-1997 - en branche i bevægelse. Herning: Dansk Tekstil og Beklædning.

12. Experiences from research on urban networking and urban systems in the Baltic Sea Region

By Perttu Vartiainen, Finland

12.1 Introduction

I will present, first, some basic ideas of the research programme, 'Urban Networking as a Learning Process in the Baltic Sea Region', whose pilot phase started as a joint Nordic project in 1996. Second, I will present shortly some results of my pre-study on urban systems in the Baltic Sea Region (BSR) which I have made for the Ministry of the Environment in Finland.

In the Nordic pilot study we have been focusing only on the Baltic links of Danish, Finnish and Swedish cities. The main emphasis has been in the case studies of 12 cities or city groups (cf. Table 1). The research programme is based initially on the idea of BALTLAB, a laboratory of regional research and development processes in the Baltic Sea Region¹⁸. The Baltlab approach seeks to underline the need to promote the cooperation and learning process of contemporary strategic policies of cities and other urban actors in the Baltic Sea Region.

My main proposition is that the specific and valuable results of Baltic cooperation will, in the long run, rest with the truly local and regional perspective than just growing cooperation between the Baltic Sea states.

Several studies of spatial development in Europe have recently argued of the importance of cities or urban regions as motors of economic development. Cities and their regional coalitions are believed to 'compete' and, simultaneously, 'cooperate' more intensely with one another in an attempt to ensure their position in the spatial division of labour.

Cities are key collective actors of the transnational (transborder) cooperation, too, because only regions with an urban core are likely to compete for new economic functions, an expanding fiscal base and greater administrative autonomy. Furthermore, cities (functional urban regions) form the context of daily actions of both residents and socio-economic institutions.

18 See B.Forsström, P.Vartiainen & H.Andersson (1996): 'Urban networking as learning process in the Baltic Sea Region'. IÖR-Skriften 17, 50-53.

19 See my more detailed articles 'Urban networking as a learning process: an exploratory framework for transborder cooperation in the Baltic Sea Region' in U. Graute (ed.): Sustainable Development for Central and Eastern Europe. Springer-Verlag, Berlin 1998 and 'Urban networking in the Baltic Sea Region. A Nordic view' in H. Eskelinen et al. (Eds.): Curtains of Iron and Gold. European Peripheries and New Scales of Cross-border Interaction. Ashgate (in press, 1998).

We can find evidence for this proposition also from the famous theorists in social sciences like Bob Jessop and Manuel Castells. First, I refer to the concept of 'hollowing-out' of the nation-state which is developed by Bob Jessop. According to him, while the national state still remains politically important, some state capacities are transferred: first, to a growing number of pan-regional, plur-national, or international bodies; second, to restructured local or regional levels of governance; and, yet, third, some of the state capacities are surpassed by emerging horizontal networks of power which bypass central states and connect localities or regions in several nations. Second, according to Castells (1993), the new spatial logic that now characterises European cities is determined by the pre-eminence of the space of *flows* over the space of *places*. The space of flows refers to a system of exchange - of information, capital and power - that structures the basic processes of societies, economies and states among different localities.

While the national state still remains politically important, some state capacities have given way to new configurations in which both the local/regional and the transnational/global scale have risen to prominence. In a more abstract way, this change may be characterised by the term *glocalization* which unites the process of localization (regionalization) with globalization.

Urban networking might be interpreted as one way of managing this complex situation and that is why we are witnessing the mutual strengthening of urban 'networking' and 'competition'.

In our Nordic study we have been approaching urban networking from a socio-economic perspective. Urban networking refers principally to inter-urban (transregional) cooperation of cities for utilising and developing 'synergetic effects'. Along the definition of Klaus Kunzmann, we may refer with the concept 'urban network' only to the functional and strategic networks but not to physical networks as such. Functional networks refer to a system of interrelated cities in one functional area of different size and strategic networks refer to cities which for some reason (exchange of information, city marketing, policy influence, etc.) form a strategic cross-border alliance. Physical networks - like transportation routes - are used, of course, as an infrastructure for urban networking of this specific kind. I would like to emphasize also that we are not interested primarily of networks as socio-spatial configurations but of *networking* of individual cities or city-based actors

In a transnational context, urban networking may refer both to the cooperative arrangements in adjacent areas and between nodes of a polycentric region or, to non-adjacent alliances of cities with similar functions and problems. Chiefly from the latter perspective, Michael Parkinson presents three functions of urban networks (specialising in one or more of these functions):

1. They act as a conduit for the transfer of knowledge and best practice, stimulating innovation in technology and policy;
2. They act as catalysts for the creation of economic cooperation between cities; and,
3. They lobby for national and, increasingly, European resources.

12.2 Some preliminary ideas on the prospects of urban networking in the BSR

In the Baltic Sea Region, cities or city regions represent the most advanced and well functioning physical and functional infrastructure. The functional core of this area is composed of the main cities around the Baltic (see the map).

On the other hand, we must note that in the Nordic countries as well as in Estonia and Latvia, the main Baltic cities lie in the national core areas while in Germany, Poland and Russia the 'Baltic dimension' constitutes, more or less, an antithesis to the national core areas and capitals. Still, even the main centres of the Baltic Sea Region are subordinate nodes in global and/or in even national hierarchies or, they are still 'mere' national capitals by nature.

In the table 2. I have presented - based on my Finnish pre-study - some basic dimensions for portraying urban systems in the BSR.

In the research programme 'Urban Networking as a Learning Process in the Baltic Sea Region', urban networking has been analysed from the *actor* perspective. The local governments (and their regional coalitions) are, of course, at the forefront in managing urban networking. Reaching the practical actor level, it must be emphasised, however, that urban networking should not refer only to the local government but also to the other prominent public, private and intermediary actors in economy, research and development, environmental management, etc. in their respective city or city region.

From the planning and regional development theory perspective, the research programme rests on the approaches which emphasise - instead of top-down policy and technical tools in resolving planning problems - the communicative and partnership processes and learning-by-interacting.

This kind of an interactive and interpretative approach might be seen as a continuation to the collaboration which started during the VASAB 2010 process, but now more at the inter-urban than inter-national level.

Finally, I will present some preliminary results of our study:

First, most of the obstacles encountered in European transborder networking are present in this region. Instead of a truly interactive and horizontal cooperation, actual partnerships between local authorities in 'East' and 'West' still seem to be much tied in with hierarchical structures of state administration and to be of one-way communication and resource transformation by nature. In that way, the BSR cooperation is still today based on a relationship between unequal partners, and this fact must be taken seriously before applying any oversimplified western model in this region.

Second, the international activities, apart from the traditional twin-city relations, are very new even for the rather 'internationalised' and proactive Nordic cities. In the transition countries, in turn, local administration is still in the founding phase. In the last few years, there has been a growing interest toward twin-city relations in the Baltic Sea Region in particular. They are still mostly in the phase of becoming acquainted with each other but some of these interactions may lead to more long-term development actions.

Up to now, we may find, first, a lot of small projects of the Nordic cities in the transition economy countries of the BSR focusing on training or environmental management, for example, and, second, visionary mega-projects which stress the transnational axes of transport and communication like the Tampere - Helsinki - Tallinn - Riga zone. What are almost missing are innovation-based local economic development projects. To be sure, the Baltic Sea Region lack the intermediary organizations which are decisive in technology transfer and innovation networks

Third, the spatial reach of urban networking is still very restricted and reflects the actual partitioning of the Baltic Sea Region into different subregions. The Finnish cities, for example, are orientated basically to Estonia and St. Petersburg on the one hand and to Germany on the other hand. In a matter of fact, in Germany the Baltic coastal area is only a minor target area in comparison with the southern parts of the country.

Nevertheless, transborder cooperation in the BSR is making some progress at different scales. Referring to our conceptual framework above, we may differentiate two basic spatial forms of urban networking in the BSR:

1. Cross-border cooperation of adjacent cities and city regions (functional transborder region-building) and
2. Strategic networking of cities in the BSR which may lead to an establishment of organised or semi-organised Baltic city networks.

In both of these meanings we may comprehend the BSR as a network of districts or as a region of networks which has no definite territorial boundaries.

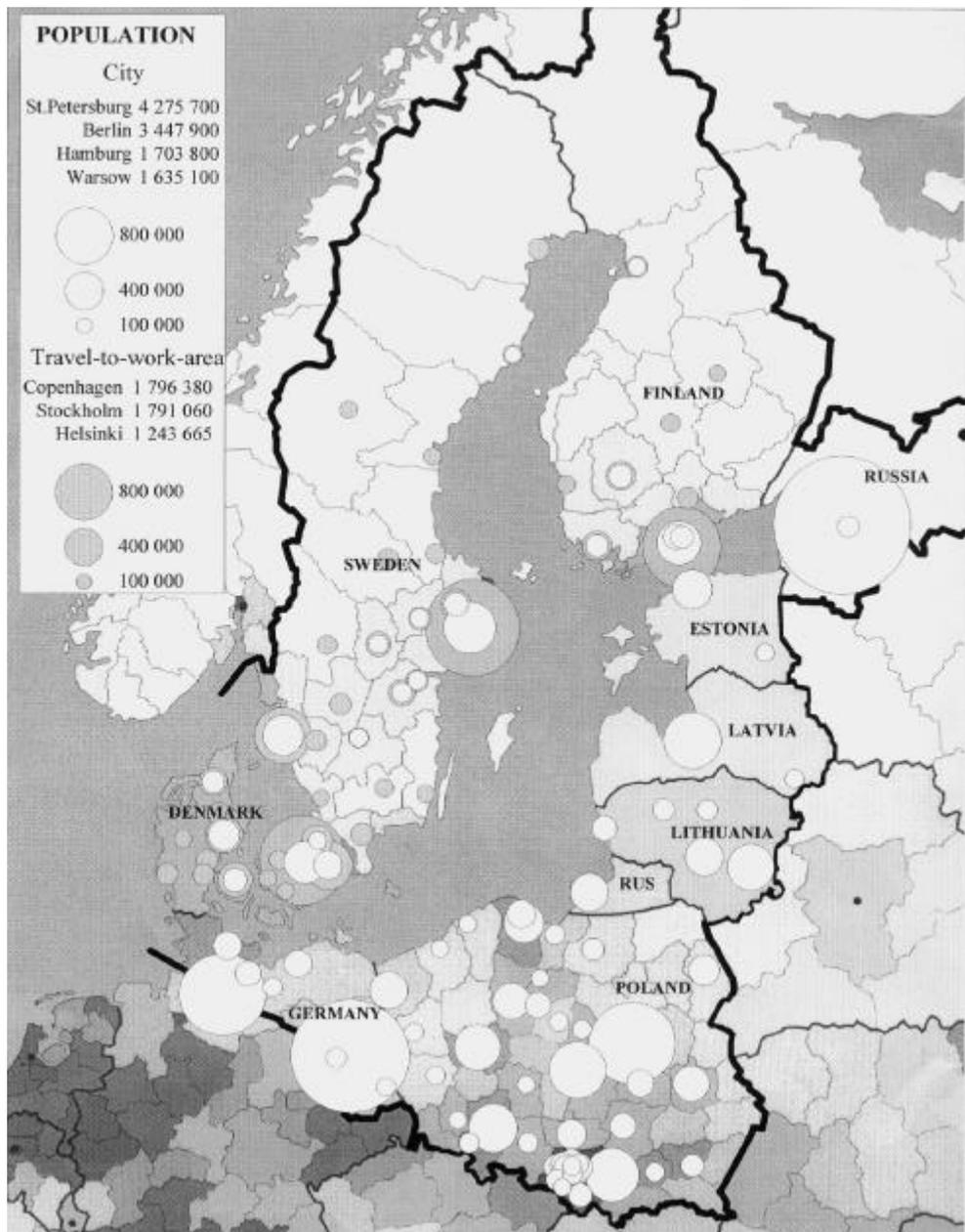
Table 13. Case study cities (group of cities)

Denmark	Finland	Sweden	Type
Copenhagen	Helsinki	Stockholm	capital city (coastal)
Odense	Turku	Malmö	coastal 2nd order city
Nykøbing	Kotka	Karlskrona	smaller coastal city
“Triangel” ¹	Lahti	Västerås	inland city (urban region)

1) “Triangel” (Trekantområdet Danmark) is a special case. It refers to a coalition of three small towns and five other municipalities. All the towns (Fredericia, Kolding, Vejle) are located, as a matter of fact, at the coast.

Table 14. Elements for a typology of cities in the BSR

1. Population (size and growth)
2. Centre functions
 - * political-administrative functions
 - * multinational corporate functions and international institutions
 - * market potential
3. Economic base and know-how functions
 - * main industries and their prospects
 - * universities and other R&D institutions
4. Transport functions
 - * connections by air and sea
 - * seaports (freight, capacity)
 - * transnational routes by land
 - * contact potential
5. Cultural functions
 - * conferences, fairs, etc.
 - * mass media
 - * main cultural institutions
 - * tourism and recreation
6. Urban environment
 - * individuality and heritage
 - * social problems and criminality
 - * environmental pollution



13. What Becomes of Baltic Integration in the Post-Industrial Era?

By Lars Fuglsang, Denmark

Abstract: The paper discusses the concept of “regional integration” and applies it to the Baltic Sea region. It also briefly reviews the main economic, military, technological and cultural arguments for (or myths about) Baltic integration. It assumes that integration will happen but proposes that indicators of integration are presently weak. A “long wave” perspective on economic development is introduced to interpret opportunities for and barriers to integration around the Baltic Sea. The suggestion is that new technology changes the conditions for economic integration. The application of new information and communication technologies creates opportunities for more differentiated production. This makes it difficult to maintain a generic style (e.g. a “Baltic”) for integration and co-operation. To do so would at least require strong industrial and cultural policy initiatives. On the other hand, the new economic opportunities, first and foremost represented by new economic relations created in the service sector, sometimes strengthen the need for situated social interaction and learning. Along these lines, Baltic integration or interaction may perhaps become an asset.

13.1 Why Baltic integration?

As we will understand later in this essay, integration in the Baltic Sea region is not simply a result of economic forces. It is rather the political, military and ideological arguments that have been predominant – as well as the related myths about integration and its role for economic development. However, the political and military arguments do not always match the usual economic and cultural indicators of integration.

Below I briefly discuss some of the main arguments for and myths about integration in the Baltic Sea region as I interpret them. Thereafter, I discuss the economic and cultural indicators of integration. The Baltic Sea region comprises the following countries: Estonia, Latvia, Lithuania, Russia, Poland, Germany, Denmark, Sweden, Finland and Norway.

1. Baltic integration will assure security. One important argument for economic and political integration in the Baltic Sea region is that it will help assure security in the region in the long run.

As is well known, the Baltic Sea has been an object of military and political conflicts for several centuries because of its strategic role for military operations and trade. After the fall of the iron curtain, it became crucial for countries in the Nordic-Western bloc to safeguard peace in the region as quickly as possible. The Nordic-Western countries had a well-defined self-interest in stabilising the region as a whole in order to counteract immigration from the East,

avoid economic turbulence and get access to new markets in the new, globalising economy. Furthermore, in this perspective, politicians from the Nordic-Western countries could welcome integration in the Baltic Sea region also as an accepted policy project that would put these countries on the European political map – as spokesmen for the enlargement of the EU towards east.

Given the economic crises now present in Russia, the security problem has perhaps been over-estimated at least in the sense of the threat of a Russian invasion of the Baltic States. But the economic downswing in Russia could constitute a severe economic security problem. The severe troubles could stimulate new forms of ethnic and cultural conflict, for example inside the Baltic States. The Nordic-Baltic countries have a stronger interest in protecting themselves from these types of problems than the rest of Europe and are perhaps also better positioned to recognise and understand them. The myth about this region and its problems is driven by strong policy interests and economic interests to put these problems on the EU agenda.

As a consequence, security in the Baltic Sea region cannot be thought of as a separate Baltic issue in isolation from the wider Europe. The Nordic countries can oil the European agenda and make life easier for the Baltic countries, but can hardly operate independently of the rest of Europe. Therefore, security is in the end a somewhat false problem for the Baltic Sea region as such, rather, the Baltic issue is about setting the EU agenda.

2. *The Baltic Sea region can form an alternative economic bloc.* Another, more ideological (or chauvinistic) argument for integration among the Baltic Sea countries is the idea that a new strong independent economic bloc can be formed. This new “meso-region” could be based on the principles of the Nordic welfare states and sustainable development.

Hence, the countries around the Baltic Sea are marginal countries in relation to the economic core of Europe, the so-called “blue banana” – and extremely dependent on it. But if the Baltic countries could pool their resources better and promote internal trade, maybe they could achieve greater independence; they could become a new trade bloc. Within such a bloc, once it is established, the Nordic welfare models could be maintained and diffused. Economic and cultural similarities among the countries in the region, and a shared cultural heritage would help this vision come through.

But this proposal also runs into major problems. For one thing, an independent Baltic region with special trade privileges along the lines of the Hanseatic league in the 13th and 14th centuries would require separation from the EU, which is clearly unrealistic. In addition to this, there is evidence that Nordic welfare models are presently converging with other European models of social policy and vice versa. As a consequence, history would also on this point have to be turned around. Furthermore, the Eastern countries have no strong political traditions that point in these directions, and therefore it is not very plausible that a Scandinavian welfare

model can be implemented. Most importantly, as we will discuss later, presently there are few indications that a new economic centre is under creation in the Baltic Sea region. Rather, what we are witnessing is a globalisation of the economy and a strengthening of the existing trade blocs.

3. The Baltic Sea region can form an arena for structural policy. A third argument for co-operation and integration in the Baltic Sea region is based on the perceived role presently played by neo-schumpeterian structural policies for industrial development. Such policies are not necessarily linked to the nation state.

Hence, many countries have seen a change of industrial policy orientation over the past 10-20 years from general Keynesian welfare policies toward active industrial policies with the purpose of upgrading technology and human resources.

One explanation of this shift is that international trade today makes it difficult to regulate the economy from the position of a nation state. Furthermore, innovation and quality have become important factors for economic development with, for example, shorter product life cycles. Industrial policy issues related to these trends are more linked to an international than a national arena, because production is outsourced and globalised.

Structural policies can focus on three sets of problems: 1) Development of infrastructure, 2) diffusion of technology and knowledge, and 3) standardisation of technology through participation in standardisation committees. Such policies will always be based in the self-interest of the participating actors while simultaneously implying collaboration among them. Strategic action single actors is an option, but in many cases one can claim that co-operation is more important.

As mentioned, these co-operative policies are not restricted to the nation state or other legally binding entities (cf. standardisation processes in the EU for example that is to a large extent bottom-up and is not legally binding). Whether or not the regional context is an adequate framework for such policies is, however, an open question. Economic actors can today find relevant partners all over the world. It could be argued as a hypothesis that relationships based on the ties and affiliations inherent to a region constitute a relevant framework for co-operative industrial policies.

Nevertheless, it is not easy to conclude from this point that the Baltic region is an adequate regional framework for these purposes, given the historical, cultural, religious and linguistic aspects of the region (cf. later). Also, to actually perform such policies would require the construction of complicated political institutions.

4. The Baltic region could be a context for situated learning. One final argument for Baltic integration – which I will return to later – is linked to the overall argument that a post-industrial society is generally emerging, based on knowledge processing and information technology. According to these ideas, in such a society, each person has to be able to access and process knowledge independently. Each person will be much more broadly oriented than normally understood and much more autonomous in work (able to take decisions from the bottom up).

There is evidence that for such a society to function, “situated learning” is a crucial factor (cf. later). Through situated interaction in culture and education in the Baltic region for example, made possible because of a common interest in economic development and peace, it may be possible to create specific contexts that facilitates the processing of knowledge for the involved actors.

13.2 Some indicators of Baltic Integration

Below I briefly discuss some indicators and explanations of regional integration. The discussion is mostly based on Peschel (1990) and Cornett and Iversen (1997) (cf. also Fuglsang 1997). In the following, I will not develop one single model that can be applied to measure and compare levels of economic integration in different regions. I focus on two separate factors that I find important as cause and consequence of integration in the Baltic Sea region, namely trade and culture. I will also briefly apply these indicators to the Baltic Sea region.

Hence, regional integration can be studied by examining various indicators of integration, such as trade, infrastructure, political similarity, adjacency and cultural affiliation. For regional integration to be present countries should share a larger proportion of these factors with each other than with other countries (cf. the contribution of Peschel to these ~~pro~~dings).

Which of these factors are the most important is a matter of definition, however, and should probably be studied thoroughly in each specific case. Thus, former colonial powers may be said to be strongly integrated while not being geographically adjacent. Some countries share borders while nevertheless having little to do with one another due to international conflict for example.

The two factors we discuss below, trade and culture, are, I believe, the most important variables of integration in the Baltic Sea region. It is clear that the countries are geographically adjacent to one another. Infrastructure has in the period from World War II onwards been disconnected but is now gradually being re-connected, for example in energy, flight-traffic, railways, roads and telecommunication. As for policy, it is, as we have seen above, clear that numerous initiatives have been taken since the fall of the iron curtain.

Therefore, the crucial question is, as I see it, whether there are signs that these efforts have a structural parallel in trade and culture.

13.2.1 Trade

The most obvious indicator of regional integration is trade. But trade is not an unambiguous indicator of integration. In the regional context it can be applied in many different ways.

One problem with trade as an indicator of regional integration is that small countries will generally trade more with large countries than with each other or than large countries will trade with small countries. Hence, one should not expect the three Baltic States to trade much with each other compared to the trade they have with Russia for instance. Nevertheless, these countries are of course, integrated in terms of trade – even if they sometimes claim not to be so.

Below I have listed different ways to apply trade as an indicator for integration in the Baltic rim, based on figures from Cornett & Iversen (1997) and the Economist Intelligent Unit (1998):

- Trade within the region as a percentage of total trade.
- Trade within Western Bloc as a percentage of total trade in the region (68 % as of 1992-1994)
- Trade within the Eastern Bloc as a percentage of total trade in the region (3.5 % as of 1992-1994)
- Trade from East to West as a percentage of total trade in the region (14.1 % as of 1992-1994)
- Trade from West to East as a percentage of total trade in the region (14.4 % as of 1992-1994)
- Bilateral trade between specific countries, for example Finland and Estonia, as a percentage of total trade in the region
- Bilateral trade with main trading partners, as a percentage of total trade, for example Estonia export in 1996 to Finland (18 %), Russia (17 %) and Latvia (8.4 %).

From this we can see that figures can easily be misunderstood. For example, if we measure trade within the region as a percentage of total trade, it may well be that much of that trade takes place among a small number of countries, i.e. within the Western bloc for instance or between Sweden and Denmark. If we break down the figures, we see that some trade takes place between the two blocs in both directions, but the figures still not tell us whether trade is between two countries such as Finland and Estonia or is more widely spread in the region as a whole. Again, even if we recognise that some trade takes place between Denmark and Lithuania, some trade between Latvia and Sweden, some trade among the three Baltic States and a substantial amount of trade between Finland and Estonia, does this really mean “integration” in the region as a whole? Or are we talking about more fragmented events?

The overall impression that we get from the figures (also supported by Peschel in her contribution to these proceedings) is that Finland and Estonia by themselves forms a small trade bloc. They are integrated as a region because they tend to trade more with each other than with other countries.

As for the rest of the region, trade relations are more ambiguous. Indeed trade among East and West is growing and internal trade within the Eastern bloc is expected to grow (cf. Cornett and Iversen 1997). But this does not necessarily suggest that the countries form an integrated region in the above mentioned sense. It is more safe to say that the Scandinavian countries belong to a region whose core is the before mentioned blue banana. The Baltic countries and Poland are pulled in different directions by Russia, Central Europe (around Austria and Hungary) and the blue banana.

Trade as an indicator does not in itself give us a clear picture of regional integration in the Baltic Sea area.

13.2.2 Culture

Culture is a factor which is often overlooked in the literature as an indicator of regional development and integration. An exception is Peschel (1990). One major problem with the concept of culture is that it cannot easily be translated into well defined indicators that can be measured. Culture therefore often plays the role as a broad explanatory factor.

Some aspects of culture can be quantified, however, but at a very general level. An example of this is affinity. For example, we may quantify, in terms of yes or no, whether two countries have the same language, same religion, similar political institutions or similar social institutions. If these indicators are added to quantitative measurements for adjacency, trade (corrected for size) and perhaps historical factors, we may actually come up with a precise idea of the level of integration in a region that can be compared to other regions. Karin Peschel has been a pioneer in that type of measurement which is extremely valuable.

Let us briefly look at some indicators of affinity in the Baltic Sea region – without quantifying them. It appears that, in the Baltic Sea region, we find that culture is more a dividing factor than an integrative factor.

The language is very different from country to country. Communication across the Eastern and the Western bloc has to take place in German or English. Even within the blocs there are major differences in terms of language between neighbour countries, for example between Estonia and Latvia. Religion also differs. Part of Germany, the Scandinavian countries and Estonia and part of Latvia is Protestant and the rest mostly Catholic.

Political institutions are different but are converging for the moment. The same is true for social institutions. Nevertheless, in the Eastern bloc there is, as already mentioned, no tradition of welfare state as in the Scandinavian countries and no strong tradition of democracy. As mentioned, there is evidence that the Nordic-Western models of welfare state are presently converging with the Southern European models of social policy.

If we look at the more direct bonds across the Baltic Sea, such as family relations, the results are also relatively poor. If we then add that historically, the Baltic Sea region has been characterised by political conflict for many centuries, there is not much left of integration in the Baltic Sea region in terms of culture and history.

There is another, more formative aspect of culture which is not so easily captured by the cultural indicators above. The proposal is that the development of political discourse is important for economic change. Political discourse can, as can institutional leadership in an organisation, provide a “cultural” climate for actors and that increases trust among them.

Political discourse is not merely established through charismatic leadership, however. It will be a long term project, created through deliberation among citizens and politicians and analysis of problems to be confronted. It has to be created and accepted by several participating institutions and accepted by a broad audience.

Political discourse could be concerned with various aspects of Baltic values and Baltic identities. As a result of accepted political discourse along these lines, misunderstandings among actors can better be avoided and projects can more easily be created and carried through without political fuss. To a smaller extent, projects will be blocked by hidden agendas and strategic gaming.

In the Baltic Sea region numerous initiatives in education and culture have been carried out that are, as a matter of fact, dependent on such a discourse for successful implementation. On the other hand, these projects may also gradually help to build up communities of discourse and trust, and in this perspective, they should not initially be ~~avate~~ evaluated too hard.

The before mentioned “myths” of Baltic integration may also be driven by a wish to form such a political discourse in the region. In order for us to find out whether this works or not, we would, however, have to carry out extensive surveys in the region about Baltic identity and value. We would have to construct indicators of identity and value rather than historical indicators of affinity.

13.3 The role of IT for regional integration

In this chapter I will argue that the diffusion of information technology (IT) plays a role for regional integration. New forms of interaction are developed as a result of IT. Generic frameworks or personal relations become more difficult to maintain. In order to explain this, I need to make a detour around theories of technology and services before I briefly get back to the topic of the essay.

The chapter builds on the theory of long waves (cf. Freeman and Perez 1988), the theory of a reversed product life cycle in services (cf. Barras 1986) and the theory of service relations (cf. de Bandt & Gadrey 1994). The chapter seeks to apply the concept of a post-industrial society and briefly examines its consequences for regional integration.

The theory of long waves was developed first by Kondratiev (cf. Kondratiev 1975) and elaborated by Schumpeter (1939). Kondratiev showed how the economy from the late 18th century to the 1920s developed in cycles of 45-60 years. Schumpeter argued that economic upswings in the Kondratiev cycles could be explained by the presence of entrepreneurs, able to create new opportunities through innovation. Freeman and Perez (1988) build on Schumpeter arguing that each upswing leads to the introduction of a new group of “key technology” and a related change of the “techno-economic paradigm.”

In the late 18th century, during the industrial revolution, the key technology was steam engine applied to textile production. During the 1830s the key technology was railways and the related iron industries. Electricity was a key technology – applied for lightening and later city trams, industrial production and consumer goods – from the 1890s through to the 1920s. In the early 20th century, the automobile and the petrochemical industries became the leading technology. Finally, during the “5th Kondratiev cycle,” after World War II, IT has, according to the theory, become the central technology.

According to Freeman and Perez, these changes not only involve technical changes. They are connected with changes of the production system and institutional change as well. For example, in the 4th Kondratiev, the adequate organisational framework was the Fordist system of production, i.e. assembly line and large scale standardised production. The Taylorist method to organise work was introduced, and labour markets and educational institutions were established to fit this framework.

What interests us here are the institutional changes that take place during the 5th Kondratiev, the age of IT. During this period, the service sector also becomes very important for economic change. Today services generate around 70 percent of the economy in many countries.

To explore the interconnections of services, manufacturing and IT, I draw on the classical

article on service innovation by Barras (1986). Barras argues that innovation in services is characterised by a reversed product life cycle.

The “normal” product life cycle in manufacturing is, according to Barras, characterised by 1) the invention and introduction of a new product (product innovation), 2) the creation of a production system to manufacture the product (qualitative process innovation), and 3) improvements and rationalisation of the production process (quantitative process innovation).

In services, the cycle is usually reversed. Service innovations often start with an attempt to rationalise the production processes through the application of new IT (quantitative process innovation). This eventually leads to qualitative changes of the production system (as new possibilities for organising the production system are gradually discovered) and finally sometimes to the invention of entirely new services (product innovations).

The model has turned out not to be generally applicable to services. The relation between the reversed product life cycle and the theory of long waves means, however, that it is possible to understand the theory in a macro-perspective. The role of IT can be understood in a broader sense, not as a specific product that is developed through three phases but as a general precondition for production of services. We should think of IT as a product innovation from manufacturing which is introduced as a process innovation in services.

According to Barras’ model, IT would in a first stage be applied to rationalise service production. Qualitative improvements of the production system would follow (new marketing or customer relations). Finally, a changing production system would allow for new product innovations (e.g. new telecommunication services or services based on Internet) to be sold on the market. Through feed-back mechanisms, the application of IT in services would also lead to qualitative and quantitative improvements in manufacturing of IT.

Thus, according to this model, IT constitute a link between manufacturing and services in the 5th Kondratiev cycle. Manufacturing produces a technology that is applied in services and lead to service innovation. The contention that technology plays a central role for services is supported by Guile and Quinn (1988) among others.

A more comprehensive model would have to account more detailed for the feed-back mechanisms that exist from services to manufacturing and from manufacturing to manufacturing. As a matter of fact, in manufacturing, the application of IT can also cause a reversed product life cycle, leading first to qualitative changes of the production system and eventually to product innovations (cf. the textile industry).

I now turn to the institutional consequences of the application of IT in manufacturing and services. I propose, in accordance with a large literature, that the central characteristic of production in the 5th Kondratiev *flexibility*.

In manufacturing we know this phenomenon as the application of general purpose numerically controlled machine tools for large scale production (“lean production”) as well as small scale production (“flexible specialisation”). There is evidence (though this is still widely discussed) that services largely follow the same patterns (cf. Bowen & Youngdahl 1998).

The changing structures of services are of special interest, given the economic role of services and their importance for economic development also in the Baltic Sea region. I suggest that services mostly should be seen as “relations” between producers and users rather than conventional “products” that can circulate on the market.

Therefore innovation in services, supported by IT, is identical to the forming of new flexible relationships among actors in the economy and society more broadly, reflected in the construction of new institutional structures. More specifically, the contention here is that, as a consequence of the application of IT in services, a number of constraints on social and economic interaction tend to be removed, such as the following:

- a) Place. To form economic relations, the actors are not so much linked to the geographical place as before. They can communicate and deliver products and services even at large distances.
- b) Generic link. To form economic relations, the actors are not so much dependent on a generic organisation. Economic relations can be formed in alternative contexts. The technical functions behind economic relations become more generally available.
- c) Need. Actors are not so much bound to fulfil basic needs. The basic needs are fulfilled.

To further understand what this flexibility generally means for the economy and relationships in society more widely, I draw on the literature on service relations (cf. de Bandt & Gadrey (1994). Of special interest for the following is also Gutek, Bhappu, Liao-Troth & Chery (1998).

I argue that a growing number of service relations (and social relations) increasingly become “pseudo-relations” (cf. Gutek, Bhappu, Liao-Troth & Chery 1998).

By pseudo-relations I mean IT supported relations, where the user achieves a relation to a number of equivalent service providers, whose role is carried by an organisation (this definition may differ somewhat from that of Gutek, Bhappu, Liao-Troth & Chery 1998). Pseudo-relations are different from *personal relations*, where the user achieves closer emotional bonds to a specific service provider, who is not equivalent with other service providers (to the customer), and whose role is carried by personality and personal history.

Pseudo-relations have according to my definition some characteristics that can be applied in what we call the post-industrial society – which is really just a dominant paradigm for the application of IT that stresses knowledge as a key factor for economic development.

One characteristic is the circumstance that pseudo-relations can take the form of a-synchronic and non-obliging relations. Actors can interact, using e-mail for example, without being present at the same time or at the same place and without being obliged to repeat interaction. Pseudo-relations also sustain one-to-many relations. An individual can, independently of time and place, communicate with many persons at the same time. Furthermore, pseudo-relations are often based on computer programmes, written language and telecommunication services, thus informing a more structured interaction. These characteristics are generally applicable to the post-industrial society, in so far as they support opportunities for each individual to access and process knowledge independently.

However, from a cognitive point of view, pseudo-relations can be problematic and mis-match the post-industrial society. For one thing, they can take the form of “mono-semiotic” relations. Briefly, mono-semiotic relations imply that only precise meanings are processed during communication, not the connotative or associative layers of meaning. This can have two types of mutually related consequences: 1) Certain types of meaning are under-represented and this can cause mistrust among actors. 2) Decisions can be more difficult to take since they become more insecure and can more easily be postponed. Such problems could perhaps be solved by a more intense use of multimedia systems, such as television conferences.

Generally, in order for pseudo-relations to function in the post-industrial society, I propose that they must be paired with “situated learning.” Social situations must be established (or simulated) to enlarge the space of meanings and better process the “cultural ~~aspects~~.”

The suggestion of this essay, that pseudo-relations become more widespread in the post-industrial society, can be empirically investigated. Surveys can be made to examine whether people tend to develop personal service relations or pseudo-relations, and what they think is required for the latter to function properly. A first study along these lines has been produced by Gutek, Bhappu, Liao-Troth & Chery (1998), but it covers a limited population.

If pseudo-relations and flexible relations are important this has an impact on our discussion of rationales for regional integration in the Baltic Sea region:

The first and most obvious consequence is that it becomes problematic to argue for a generic, e.g. Baltic, framework of economic co-operation. For the economic actors, the difference between a partner from the Baltic region and a partner from another place in the world becomes less distinct and less applicable as an asset.

The second possible consequence is, however, that in some cases, “cultural layers” of communication are under-represented and some form of situated learning is required. Along these lines, I argue that regional integration in the Baltic Sea region may create indirect economic benefit if it forms social “situations” that help solve representation and decision problems. In this latter respect, there could be a rationale for Baltic politics.

13.4 Conclusions

The most convincing argument for regional integration in the Baltic Sea region is that it helps to assure security in the region. By contrast, there appears to be few indications of economic integration in the region. Economic relations are mostly low-powered, except for some bilateral relations, such as those between Finland and Estonia and between Denmark and Poland. The cultural indicators are also sparse. There is no historical unification movement in the region. The region’s history is one of conflict and distrust. There are significant differences in language, religion, political and social institutions.

The post-industrial society with the application of IT also carries an ambiguous meaning for integration in the region. It leads towards the development of new service relations. Place and generic frameworks tends to become less important for economic relations. But it also creates a need for situated learning. A rationale for integration politics could be that it informs situated learning.

It seems clear that some integration will happen in the Baltic Sea region given the almost total separation between East and West during the past 50 years. But the Baltic Sea region will never develop into a really strong economic bloc comparable to the “blue banana.” To form such a bloc would at require enforcement of protectionism and other forms of strong political action in the region.

This is perhaps not what is wanted.

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Session V: Western politics and assistance in the Baltic Sea Region

14. The Politics of EU in the Context of the Baltic Sea Region

By Pertti Joenniemi, *Damark*

My theme is on the European Union's policy on Northern Europe and vis-à-vis the Baltic region in particular, and to some extent I would like to describe what those policies in my view are. But I am also trying to discuss and test some themes that have been on my mind for some time.

As to the Baltic Sea region, the European Union's policy can be divided into two spheres. As the EU proceeds, the Baltic Sea region belongs to the sphere that is called *Common foreign and security policy* and the Community has been active also in that regard. Then there is another dimension if one looks into the Community as an actor active in the sphere of regional policies, where the main tools are the structural funds. The EU via its Commission is very much present in the Baltic Sea region, including the Council of the Baltic Sea States. EU itself is a member of the Council which is a bit of a peculiar arrangement, because usually - if the Community is present - then the member states are not present, and if the Community is not present, then the member states in a sense represent the Community.

In the Council of the Baltic Sea States we have both the Commission and representatives of the member states, and potentially, there is the option that the EU is not speaking with one single voice, which of course is something one usually does not aspire for. It might speak with many voices: the Council's voice, but also the voice of some of the member states. The Commission is also member of the Helsinki Commission, which is dealing with the problems of fishing and fishery issues. At the moment the EU Commission has the chair of the Helsinki Commission, which is quite interesting. The Commission can even become a president of some of the regionalist bodies, which we have in the Baltic Sea region. I think it is an adventure also for the Commission and the EU itself to see whether they can have such a role in a regional context.

As to common foreign and security policies, the EU took an active role in the initiating - it was actually originally France's initiative - to establish what was called the Stability Pact, and the Pact resulted in a set of regional tables. One of these regional tables was a Baltic Table, one that included the Baltic countries and Poland.

In other words, the message has been that those countries in the region interested in future membership should become part of this process, they should negotiate with each other concerning minority rights, environmental issues, regional policies and so forth. They should enter into agreement with each other, they should do away with all kinds of conflictual issues, as the EU is not going to accept members in the long run that quarrel with their neighbours. So the

Baltic countries and Poland delivered a number of agreements emerging from the process. The results then landed on the tables of the OSCE, and were evaluated. Within the OSCE the plan is now in rather concrete terms to go on with this form of regional tables, and the Baltic Sea region seems to be a primary candidate for establishing regional tables, although this time the issues on the agenda will be much more directly security related. The initiator of such a process has been the EU, and the EU has used its leverage in the sense of being able to saying yes or no to potential candidates for membership.

The EU has, in general, not been particularly well equipped to deal with transnational regional formations such as the Baltic Sea region. The regionalist policies of the Union were designed more to create a uniform political economic space within the Union, do away with the declining regions, help them, redistribute financial resources, to spur particular developments and to do this to spur particularly areas in difficulties, maybe due to industrial decline or underdevelopment. This has been a top-down approach sending a bit of money to the locals to assist them in getting levelled with others. The policies has been about aspiring for a more uniform political economic landscape within the Union, a policy transference. The specific aim was perhaps not to boost regional developments.

The criteria for a uniform landscape which EU has been aiming at have been based on directly binding rules, establishment of supra-national institutions and having then a decentralised market liberalisation. The regional policy of the EU has been in line with this.

Once the Union started to look towards the North and Northern Europe, particularly the Nordic countries, it came across all kinds of peculiarities, which was not very easy to deal with: strong local actors, networking, bottom-up type of regional activities and regional entities, political space and cultural space based on informal actors and often private actors rather than public actors as well as a strong utilisation of symbolic departures in the construction of political space. Nordic co-operation is one of the issues very difficult for the EU to comprehend.

And then these transnational mega-regions, like the Baltic Sea region and the Barents region. These are not the type of regionalisation that the EU has been accustomed to, and hence, this going North has been very much of a challenge for the EU.

The structural funds, primarily standing for policies of transference, started to change in 1988. Then in 1992, they got an even more flexible nature. It became possible also to use these instruments in border regions, border regions of the EU itself, and to some extent also outside the border of the EU, to have an impact on future membership candidates. It seems to me that the Nordic countries very much contributed to this process of transformation, and have been among the actors who have actively been advocating a change and pluralisation, diversification of the tools, the instruments, which the EU has at its disposal. The objective 6 principle departure, for example, with assistance to regions being sparsely populated, the new principle in

the context of the EU, has been extensively used in the North. So going North and being encountered with Norden has been an adventure for the EU, and the effect of the process is not only Norden being europeanised or streamlined to become part of the political economic space which constitutes the EU. There has also been a nordification of the EU itself, which is quite obvious if one looks into how the structural funds have developed and have been diversified to deal with to some extent new kinds of problems, but also used in a much more flexible way, also to be used outside the sphere of the EU. The EU has thus achieved new instruments for new types of purposes. It seems that the Baltic Sea type of a region and the Barents Sea region have composed quite considerable challenges to the EU. In general there is the image that the EU is very positive to regionalisation and region formation, but obviously the Baltic Sea region and the Barents region stand out as considerable challenges. The Baltic Sea region is above all a networking exercise and a non-state actor process, rather than a state-centred process. All the states of the region are there as well, but it has considerably bottom-up type of qualities. The same goes to some extent also for the Barents region. Some of the local actors, the Norwegian Fylke for example, are quite proud about the Barents arrangement, claiming that they have a considerably share in being fathers of that entity.

Such a formation is a bit odd from the point of view of the Community, albeit there has been a learning process, a process of adaptation, and the EU has been flexible. With the memorandum on the Baltic Sea regional politics, a fund with 10 million ECU has been established. Yet, this is not the usual way the EU operates, so being encountered with the northern mega-regions has introduced some new trends in the policies of the EU.

I would like to sum up partly by utilising the figure used by Bjarne Lindström. He argued that the EU will be a core actor in trying to drive the development in the direction of region-building and post-national structures. This is to some extent true but one has also to realise that region-building in the process of the EU is part of the strategy where the effort basically has been one of creating a relatively unified political and economic space. There are limits to how much diversity the EU is able to accept. My argument is that the EU does not accept whatever form of regionalisation. The smaller the regions are, the better, and if they take the form of sub-state regions, fine. But if they turn into transnational mega-regions, with actors departing from different principles of regionalisation, different driving forces, and particularly if they are bottom-up then they become a bit problematic. The Union is in difficulties, and does not necessarily become a driving force for that kind of regionalisation.

We can clearly see that much of the activities previously in the sphere of Nordic co-operation has been transferred to the EU, and what is left of the Nordic co-operation is the cultural part. As to regionalisation the EU does not deal with identity regions; identity is not on the agenda of the EU, whereas in the case of Nordic co-operation identity is precisely at the core of the whole system. And also in the case of the Barents region and the Baltic Sea region, identity is very strongly in the picture. The Union is much more in favour of functionalist top-down type of

regions, which deal with economy and technology. So there is a bit of a tension here, but all the parties have been able to deal with the tension rather smoothly.

But what kind of structures and patterns in Europe are we aspiring for? I think that the EU's vision of Europe is a Europe where rings are essential, with the EU in the centre, at the core of the very system. A Europe of regions without a strong centre, but with a multitude of centres is not the type of Europe of regions that the EU Commission is aspiring for. In the Baltic Sea region, the Barents region and Norden, if they would take on a more autonomous role, if regionalisation really becomes the core constructing principle of Europe, then we could see a very diversified Europe.

It seems clear, however, that this is not a regionalist type of policy which the EU is prepared to support. There is certainly a limit to how far the EU is willing to go, as can be seen in the case of the policies pursued vis-à-vis the Baltic Sea region, the Barents region and the Nordic region.

The EU has become more flexible and pluralist over time, but the question is whether this will prevail. When the Baltic countries are on the agenda, when Poland will become a member, when Russia becomes a challenge for the EU, will this pluralist attitude prevail? Will Norden be able to influence the rules of the game to the extent that we have been able to do during the 1990's? With the Union growing into a Union of some 25-26 countries, it will have to streamline itself, and do away with the plurality, which is there as to the structural funds. It will have to start to operate on much more uniform principles, and really become a centre which organises political space. Russia would not object in this regard, because it is also a streamlined type of political space, although being a federation by the constitution. The Balts have very much embarked upon creating strong central governments and national states with little space for regional entities. Also the Polish mentality is that policy should be ruled from Warsaw, and that it should not give too much space for diversity and variation. So when these actors come together maybe the Nordic impact will decline, and the process goes so to speak over our heads.

In other words, the problem for the Nordics might be that there is little space for any further nordification of Europe. Some of the results already achieved may be in danger with EU's enlargement. This trend might increasingly bring us back to common rules that apply to each and anybody without distinction. This is not, I think, in Nordic interest and therefore we should watch out and try to influence policies for example once the structural funds are reformed. Our EU is a rather pluralistic one, it seems, and this should be the case also in the future. It is in our interest to see whether we can achieve some aspects of this kind of pattern and ensure, that Russia's europenisation, dragging the Baltic countries into the sphere of EU and Poland, makes such forms that we are able, in the Nordic countries, to channel some of these processes, and also see to that our pattern, policies and principles prevail as much as possible. Because they are principles which are quite important for our way of seeing Europe.

15. Western Assistance to Countries in Transition (CIT): A Critical Review

By Lars Johannsen, Denmark

15.1 Introduction

With the fall of the Communist regimes in Eastern Europe and the break-up of the Soviet Union the Baltic Sea Region were united in the prospects and hope of an emerging peaceful and prosperous region of democratic and marked economic countries. Yet for years to come the Baltic sea region will remain divided. Among the west which can be characterised as stable and relative rich democracies and fledging democracies to the east having not only a catching-up problems, but also numerous economic problems as the transition to market economy takes place.

Realising these problems and in order to promote and protect their own interests in the region the countries to the west soon founded and funded assistance programmes targeted to the eastern countries in transition. Initially there was hope for a quick transition and hence most programmes operated with implicit political sunset clauses. However, only recently the number of problems encountered in the transition and the magnitude of the economic divide among east and west have been realised, spurring a new discussion about the efficiency, change and additional funds for assistance to CIT.²⁰

The presentation will not deal with the factual amounts disbursed or committed, rather the presentation will focus on a critical review of the western assistance to CIT. However, in the last section some more normative discussion points concerning the assistance will be raised.

15.2 Problems of programme and project aid

The numerous problems that programme and project aid have encountered over the years can be summarised in table 1 below. The listing of these problems do not necessarily mean that all projects have encountered them all or encountered them to the same degree. Rather it expresses, I admit, a negative tabulation of problems identified in various project and programme evaluations.

Co-ordination problems are frequent in aid projects and relate to both donor and recipients

20 For a full review of the project and discussion concerning western assistance to CIT please see: Ole Nørsgaard og Lars Johannsen, 'Western Aid and Assistance to Countries in Transition (CIT): The Baltic States and Poland, A preliminary analysis', *The Rockwool Foundation/Department of Political Science/University of Aarhus*, August 1997.

agencies as well as the co-ordination between the donor and the recipient. Donor type co-ordination problems often relate to the different agencies that are involved in projects or that different donors launch competing projects, thus duplicating efforts and weakening the lines of control, accountability and often increasing confusion - contributing to the overload in the recipient administration. Even if there exists a level of co-ordination among the G24 countries, this do not come through at the project level. Recipient type coordination problems relate not only to the administrative chaos that exist as a CIT country tries to transform it administrative apparatus, but more often that the administration in the recipient country is overly centralised with an administrative culture where relevant information is slowly processed and shared. Moreover, co-ordination between recipient and donor becomes a problem as two or more different agencies fails to coordinate the implementation. Often this is related to insufficient preparation of the project as a failure to communicate the real implications and motivations of the project. This is less related to the more technical projects but increases with projects that carry implications for strategic change in recipientstitutions.

The human resource dimension relate not only to the administrative overload that small recipient administration faces as the number of international and bilateral projects increases. Staff in the recipient countries trained or experienced with international and bilateral projects is a limited resource. As it was mentioned in one report, "Each new foreign assisted project is taxing the limited resources in the ... administration", creating an overload situation. Insufficient knowledge, do not relate to the concrete know-how that are sought to be transferred to the recipient country. It is rather related to the insufficient knowledge about culture, political and economic realities in the CIT countries among staff and team workers in the west and insufficient knowledge about western concepts and technology in the east. Many projects have stranded or faced problems related to these invisible barriers to effective and efficient project implementation.

The institutional development dimension relate to the 'shaky legal environment' in the CIT countries as new legislation are constantly being put forward, repeatedly changed and a lack of judicial institutions to enforce the laws. More generally the institutional dimension relate to the frequent re-organisations of the administration resulting in poor lines of communication and poorly defined areas of responsibility. Common for the aid programmes are that they are compromised of numerous large and small projects designed and implemented by contractors and their partners in the recipient countries. As such no donor development organisation exists, and the programme administration is more limited to financial and procedural control, rather than implementation control based on performance criteria's. In relation to programme management and implementation, the programme aid is as mentioned above contracted out to various institutions or consultant companies. This decentralisation of the implementation has resulted in difficulties for the programme administrations to retain in-house expertise, hence the programme administrations have had to rely only procedural and financial control, losing grip on the quality, impact and performance of suggested, ongoing and completed projects. And, as

pointed out in the Phare-evaluation report high staff turnover have resulted in poor institutional memory and little accumulated experience and expertise.

Projects often falls into the trap of being part of an ongoing *political struggle and bargaining* in the recipient country, especially as the strategic importance of the projects increases. Modernisation projects often involves institutional change in the recipient country and as such these projects are more prone to become part of a specific political project. With the volatile political environment in the CIT countries, it is therefore of no surprise that political support can disappear as a damp spot before the sun. Political and administrative considerations in the donor countries more than often determines the allocation of funds for various projects, rather than considerations over the needs of the recipient country. The size and scale of projects and allocation for various purposes can thus be viewed as a part of an ongoing political and administrative bargaining in the western donor countries. Sometimes this is seen in the recipient country as a problem of communicating the real objectives and considerations of the aid in question, and this leads to misconceptions and dissatisfaction in the recipient country at all political and administrative levels.

The final residual group of problems can be located in the *complexity of the transition*. Whereas the other five categories of problems listed above are rather specific and relate to project management and implementation, the complexity of the transition relates to the interconnectedness of the problems in the transition. For example an effective market requires that contracts between buyers and sellers are respected. From the outset this has to be codified in laws, with effective sanctions for those who violate such agreements. However, for this to work lawyers trained in contract law are required, which further down the chain requires curriculum and institutional change at the universities. The linkages between market transition, democratic transition and administrative change in the CIT countries suggest that the design of projects have to take their linkages into consideration in order to be effective and grasp the political and economic realities of the CIT countries.

Project effectiveness must be assessed by the project's ability to realise the designated objectives, in particular to cope with problems related to co-ordination, human resources, institutional development, political struggle and bargaining, and the general political and administrative complexity of transition.

15.3 Central questions in the debate on western assistance

Institutional learning: The evaluation report has pointed to the lack of institutional learning among controlling agencies, even though considerable pockets of strength exist. This can probably be partly explained by the short-sightedness of the initial commitments to assistance and the paramount political importance placed on quick and active measures already from 1989 - hence less time was spent on the institutional set-up of the measures. However, it is not

time to admit that western assistance to CIT have come to stay for long period of time. This proposal is supported by the deep economic and social cleavages among the Baltic Sea states and the continuous effort to integrate the east into the main European political and economic institutions. Furthermore, the complexity of the transition suggests that the assistance efforts should be supported by directed and targeted research into these questions. Thus, to be effective in the long run assistance must be supported by research provided on an institutional basis that can provide research on both the effects of aid and the political and economic developments in CIT, as well as function as the institutional memory of politicians and administrators.

Priorities: A number of questions can be raised on the background of the differences in priorities among donor countries. As examples it can be mentioned that in the Danish official aid to economies in transition (1996) more than 40 per cent (and rising) were allocated to environmental assistance. Norwegian commitments for 1995 foresaw 27 per cent allocated for environmental purposes and as a further contrast in the Phare priorities less than 7 per cent were allocated to environmental and nuclear safety in 1994-96. First and foremost: Who is responsible for setting the priorities and why are there so large differences among the various programmes in their priorities? If it does not reflect a demand driven priority, in line with targeting specific problems in each recipient country, the priorities might instead reflect the internal policies of the donors, i.e. that distribution of funds and subsequently selection of projects is the result of a political bargaining and the pet ideas of key politicians and administrators in the donor countries. Leaving the question unanswered, pending on further studies, it is sufficient to note that if the programme aid priorities are not set in dialogue with the partner countries, then the programme aid from the outset will have build in obstructions to effective performance.

Moreover a general debate on the priorities of assistance is needed. As noted above a deep cleavage between the well-off western part of the Baltic Sea and the less well-off eastern part of the Baltic Sea exist. Should the direction of funds be changed both sector and country wise? As a provocative question for debate I would like to suggest the following four rationales for a major change in direction: First, the countries now negotiating membership with the European Union face a self-fulfilling prophesy. By virtue of being on the EU short-list they will be able to attract more direct investments etc., thus creating positive spiral. However, countries not on the short-list will lose relatively out to the countries in the first wave. Question, should more aid be redirected to the countries of the second wave in order to starve off the other version of the negative self-fulfilling prophesy? Second, most CIT countries face an internal regional divide. Evidence from Latvia and Estonia points to an increasing divide among the capital areas that attract investment and growth and the rural and provincial areas. Question, should aid be directed towards the less developed areas in order to bridge the internal divide? Third, the CIT countries are facing a social and economic crisis, that by proportion only can be paralleled with the great depression in the 1930s. Rising social inequality, mass unemployment and declining purchasing power and health, esp. for the elder members of the societies is a fact of life. Question, should active measures be targeted towards bridging the social divide by

investing in education, labour market retraining and social institutions and systems? Finally, we should not forget that there is around 1.000.000 stateless persons in the eastern part of the Baltic Sea region. Despite the integration efforts, efforts almost too large for the small countries in question, the stateless remain among the most relatively deprived both in political and economic terms in the Baltic Sea area. A situation that can jeopardise the future for the Baltic Sea region in becoming a peaceful, prosperous and democratic region. Question, should more aid be distributed and committed to target these problems?

15.4 Concluding remarks

This presentation has been a highly critical review of the effectiveness of the assistance towards countries in transition. Furthermore, this presentation have in some length discussed some questions about the future of the assistance programmes. As a concluding remark I would like to stress two issues. First, I am well aware of the great difference many of the assistance programmes have meant for both countries and people in assisting them towards a better life, and the great efforts a number of programme and team workers alike have taken. Despite the numerous problems they have made a difference. However, my purpose here have been that of the critic and the sole excuse is that I am concerned with how assistance can be more efficient and effective. Second and final concluding remark. The only reason to be preoccupied with the effectiveness and efficiency of assistance towards the CIT and to raise normative questions is in fact that I take it as a *must* for a future positive development for the Baltic Sea region that the political and financial commitment continues.

Table 15. Problems of programme and project aid.

	Donor	Recipient
Co-ordination	Intra: Duplicating efforts Inter: Competing projects.	Intra: Centralised information control and insufficient co-ordination of agencies.
	Insufficient flow of information between donor and recipient.	
Human Resources	Insufficient country knowledge.	Scarce human resources with respect to handling international projects.
Institutional Development	Lack of institutional learning in implementing agencies.	Weak administrative capabilities. Reorganisation of the administration. Shaky legal environment.
Political struggle, bargaining and support	Political bargaining and struggle determining the allocation of funds, rather than the needs of the recipient country.	Projects become bargaining chips or sides in a political struggle over strategic decisions. Political and administrative support important for effective implementation.
The complexity of the transition	Too narrow a focus on project objectives, fostering 'islands of change'.	Weak democratic culture. Frequent change in standards and legislation. Economic as well as political change.

16. Norway as Baltic Sea State - the Baltic Sea dimension in Norway's foreign-policy and research

By Håken R. Nilson, Norway

I will limit myself to handle two items. First, how can we think of Norway as a Baltic Sea state? Secondly, how does "Norway as a Baltic Sea state" work as a political context for Norwegian research on Baltic issues.

Norway is geographically peripheral, but still it is Observer to the Council of the Baltic Sea States. This status was justified on geographical criteria. A small part of Norway's southern shoreline is adjacent to the Western outlet - the Danish belts - of the Baltic Sea. We can think of Norway as a Baltic Sea State in different respects. Geographically it is remote and peripheral. Concerning identity, it is also remote because Norway is traditionally a Western (Atlantic, North Sea) oriented state. But we have a link to a possible Baltic identity which goes through the Nordic identity, which is quite strong among Norwegians. There is a possible connection, and it raises our interest in the Baltic Sea area. Culturally and economically there are many historical connections, especially through trade. One of the Norwegian cities, Bergen on the west-coast of Norway, is a former member of the Hansa League, which in those days connected us vividly with the Baltic Sea area, by trade. Today, however, our major cultural and economic ties in Europe go westwards to Britain, southwards to Germany, and eastwards mainly to Sweden.

In the geo-political sense Norway has actually been quite central in the Baltic Sea questions, but only under certain circumstances. That was in times when the Baltic Sea strategically was connected to the North Sea. Then Norway became central because of its proximity to the Danish straits leading out or into the Baltic. Our location did not mean so in the Baltic Sea context during the Cold War, but was important in the earlier, classical European power game. For example, around 1905 when Norway became an independent state, all the four great powers of the time, Russia, Germany, France and Britain assessed Norway as a possible strategic stronghold for preventing any other great power from gaining control over the Danish straits. So, access to the straits connected the Baltic Sea and the North Sea in geopolitical terms. In strategic terms it would mean that if any power would gain full control of the strait in a conflict situation, Norway or at least southern Norway could be sure to be affected militarily by that state's opponent in order to close off the one who was in control of the straits.

But this does not constitute an important context issue today. In the current process of system transformation around the Baltic Sea, Norway is acting rather withdrawn, with its present geographic remoteness from the region. To the degree that we wish to make ourselves visible

in the Baltic context, it is as a Nordic country, especially in connection with the regionalisation process to the North, in the Barents region, in which Norway at times has been the driving actor. This is even more important for us, after we chose to remain outside the European Union. The reason is that our former Nordic arena thus became much more confused and - from the Norwegian viewpoint - partly “disappeared” into the Union. One important Norwegian foreign policy strategy these days is to enter into Baltic Sea co-operation with a visible profile, in order to attract attention to our other regionalisation projects too. The aim is to tie up the other Nordic states into some sort of responsibility for the Barents project as well. And to raise awareness in the European Unions institutions, about the full scale of regionalisation in Northern Europe. In this way we try to make ourselves more central, and not so marginalized.

This current strategy adds, in my mind, up to a quite insecure and indecisive Norwegian policy towards the Baltic Sea. Since I was mandated by our Foreign Ministry to make an assessment and overview of Norwegian research in Baltic Sea questions, I had to take the foreign political context into consideration as an explanation, as a kind of interpretative framework for understanding the findings I made. So concerning this seminar I thought that this was an appropriate context to put it into. In the following I will describe and explain the findings concerning Norwegian research.

I found that Norwegian research within this field could be characterised in two major ways. First, its main preoccupation is the three Baltic States. The Baltic Sea region at large is much less in focus. The characteristic is that our government has a large influence over the main direction of the research through its funding practices - most of the funding comes from public sources. So, this gives a close connection between foreign policy strategies and the first of the research efforts.

Concerning the preoccupation with the Baltic States instead of the Baltic Sea region in large I will offer four explanations to that. The first one is the general connection to the overall foreign policy strategy for the area. This is about stabilising Norden’s neighbouring areas to the south-east, which put the Baltic States into prime focus, as well as the importance for Norway to be active in arenas where the Nordic countries more or less join their efforts. The Baltic Sea region is by our politicians assessed as - with many limitations - one such area.

The second explanation is that it is important for Norway to take part in the competition between the Nordic countries about gaining favourable positions in the Baltic countries. And this is of course out of concern for investment, policy contacts and political visibility.

The third explanation is connected to Norway’s remoteness from the Baltic Sea region project as such. We are no central player in that project, and it makes it more reasonable for us to operate within a narrow scope, which is more directly connected to our major foreign policy areas, such as relations with Russia and the other Nordic countries.

The fourth and last explanation concerns Norway's main policy instrument towards the Baltic States, which is assistance to the reconstruction of these states. Research will have a strong connection to that instrument.

The close connection between policy focus and research that I have just indicated can be illuminated by looking at the funding model, which is used for our research. Some years ago the government launched an Action Programme for East and Central Europe. The programme covers support to many kinds of activities, such as business ventures, assistance and development projects, and research. The part directed to research is transferred to the Norwegian Research Council for further distribution to universities and research institutes. The research council is then formally free to give the grants according to its own requirements, but it will also reflect the more basic priorities made by the political authorities, and these priorities are characterised by a very broad based effort on a very wide range of issues. Over the years this has meant that Norwegian aid to Central and Eastern Europe has been given out from a very huge sum of money - small grants to an array of small projects on a wide thematic scale.

Scattering of money in that manner has in later evaluation been criticised. I think the pattern appears to be quite similar concerning the research, and the result is that we presently have a Norwegian research and research co-operation with the Baltic States on various issues, which have been allowed to develop outside the framework of any comprehensive strategy for our policy towards the East Baltic Sea area. Or, I should rather say, there has not been any comprehensive strategy. Rather, the main aim appears to have been *to be there* and to make that visible - and this has been considered sufficient. What the content of this presence should be, seems to have been less emphasised. I believe this also forms the policy background for the task that was assigned to me. That the political authorities wanted to get an overview over where the expertise is - where our intellectual strongholds are. There was a wish to know this in order to know where to go when some political endeavour is to be initiated. This does not mean that policy will be directed by research, but rather that research has been allowed to develop at random, and from that basis policy might develop further at random.

Now, this observation might raise a debate about the freedom of research versus governmental steering. I will leave that aside for now. Instead I will try to round off this presentation by giving some reflections of the outcome of this situation so far, and where it has brought Norwegian research.

I think that the current priorities in research seem more reactive than proactive. They respond to continuous development in the Eastern Baltic Sea area. They do not establish very strong premises in advance. Secondly, government support to research seems only to a minor degree to be guided by principal policy choices. Rather, it appears as contextual and responsive. Third, some areas have remained completely empty, without anybody really paying attention to this. For example, Norway has no or little research on macro economy in the Baltic Sea area.

Likewise, there is little emphasis on developing language knowledge. Teaching in the Baltic languages is neglected. And there are few systematic studies upon the internal developments and discourses within the Baltic countries. There has been little critical debate about the contents and priorities within and between the various issues and fields of research.

The research networks that we have, tend to proliferate beyond our borders rather than towards our own national research communities. This means that each single science community has quite good connections with other countries' networks. But there is no tight-woven Norwegian network in itself, no national point of gravity for Baltic research in Norway. Of course, international contacts in research are indeed indispensable, but I believe they should have a tighter national basis in order to make its voice better heard, both domestically and abroad.

Lastly, research on the Baltic Sea area seems quite disconnected from the operative actors, which we also have, such as business communities and various kinds of organisations. These are quite manifold, and are frequently in possession of a much better practical country knowledge in their fields than policy-makers and - as often happens to be the fact - even researchers. Regrettably, such communities seem to be too little drawn upon by the political and expert communities.

Conclusively, Norway's research seems to reflect the impression of vague foreign policy priorities, it is lacking the direction and lacking decisiveness. Lastly, we seem to have a somewhat weak consciousness about areas in which Norway's contributions could offer comparative advantages compared to the other Nordic countries. In my presentation, I have been rather critical to Norway's main strategies. Having said that, however, I will also make the remark that we have in some areas quite a lot of good research and good research contacts with the Baltic States, that should not be overlooked. And we have a comparatively large production of scientific literature, around 165 scientific titles published by Norwegians in the period from 1993-97. How to capitalise even more on this for the sake of mutual benefit, is a topic for continued discussion between researchers, government, organisations and businesses.

17. About the authors

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18. List of Figures and Tables

Figure 1. Conceivable interactionist regimes.....	29
Figure 2. The northern provinces in.....	46
Figure 3. The Baltic Euroregion.....	50
Figure 4. Residential districts of respondents.....	67
Figure 5. Characteristic features of Vidzeme.....	67
Figure 6. Natural differences.....	69
Figure 7. Differences from other regions.....	69
Figure 8. Man-made differences.....	70
Figure 9. Tourism types by the aim of travel.....	70
Figure 10. Tourism contributing factors.....	71
Figure 11. Tourism retarding factors.....	71
Figure 12. Negative consequences of tourism.....	72
Figure 13. Positive consequences of tourism.....	72
Figure 14. A schematic view of migration patterns between regions with differing economic structures according to a traditional push-pull approach and according to an SLM-approach.....	115
Figure 15. A schematic view of the networking between actors at differing economic and institutional stages.....	118
Figure 16. A schematic view of the connection between networking and distance with regard to regions at differing development stages.....	120
Figure 17. A schematic presentation of the institutional framework of different Swedish actors in BSR networks.....	122
Figure 18. A schematic view of networking and cooperation between actors at different development stages.....	129
Figure 19. The value of Danish sewing in Poland and of Danish cloth exports to Poland, 1987-1996.....	143
Figure 20. The value of textile and clothing production in Denmark and the EU of 15, 1990-1996.....	144
Table 1. The most popular tourism objects and events in Vidzeme.....	59
Table 2. The most important tourism determining factors in Vidzeme.....	62
Table 3. GDP per capita; current prices (USD).....	132
Table 4. Economic structure in the Baltic States, Poland, Russia 1990 and 1993, and Sweden 1960 and 1993.....	132
Table 5. Unemployment rates (%) in Poland and the Baltic States.....	132
Table 6. Unemployment among different groups in the Baltic States and Poland in 1995.....	133
Table 7. Export shares (%) from the transition countries in the Baltic Sea Region	

	1994.....	133
Table 8.	Rate of specialisation (production/consumption) in different branches in the Swedish industry 1985 and 1994.....	133
Table 9.	Export and import shares (%) and export/import ratio with regard the different branches in the Swedish industry 1994.....	133
Table 10.	Cooperation between the County Administrative Boards and the Baltic States according to type of activity. 1993-1997.....	134
Table 11.	In-depth twinning projects in the Baltic States, Poland, and Northwest Russia 1994-1996.....	134
Table 12.	Twinning cooperation projects between the Swedish cities (municipalities) and Poland and the Baltic States up to March 1996.....	135
Table 13.	Case study cities (group of cities).....	149
Table 14.	Elements for a typology of cities in the BSR.....	149
Table 15.	Problems of programme and project aid.....	175